

**MINISTRY OF FINANCE**

**FLASH REPORT**  
**on the main features of economic and financial processes**  
**according to data on**  
**January to May 2004**

Budapest, 15 June 2004

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## **Flash report**

### **on key features of economic and financial processes**

The favourable developments first observed in the economy in the second half of 2003 are now having an increasingly definite influence on processes. Data on the first months of 2004 confirm that there is an increasing chance from the aspect of real processes for intensification of the economic growth. The growth of industrial output exceeded 10 % as an average of the first four months of the year, construction grew by 20 % in the first quarter and, for the first time in quite a long period, agricultural output did not decline while the output of services continued to grow dynamically. As a consequence of these processes GDP increased in the first quarter by 4.2%, a rate not recorded in the economy of Hungary during the recent three years.

The structure of economic growth also improved: in accordance with the goals of economic policy the dynamic of consumption diminished substantially while investment and exports alike grew by almost 20%. These developments are also related to the improvement of cost-based competitiveness, another recently observed trend.

In 2004 to date both employment and activity rate have improved slightly, while that of unemployment declined somewhat. The dynamic of earnings has diminished, as a result of which productivity and real wages are now more closely coordinated.

Signs of improvement have also been observed in both external and internal equilibrium processes as well, however, it is more difficult to accomplish spectacular improvement in these areas. The general government deficit was more favourable during the first five months than had been expected and - in view of the projection concerning its annual cycle - the target set for the deficit figure seems to be attainable. The improvement of external equilibrium is complicated by the fact that an export and investment driven growth structure is necessarily accompanied by growing imports. At the same time the structure of the financing of the current account balance has also been improving, the non-debt-generating net capital influx has increased substantially. These facts are probably linked to the favourable change observed in the money markets, the strengthening of the HUF and its stability.

As a consequence of the favourable processes in the real economy our annual growth projection has also been reviewed. The annual GDP growth projection has been raised somewhat, to about 3.5 % instead of the earlier calculated of 3.3% to 3.5% range.

\* \* \*

## 1. International conditions<sup>1</sup>

The global economy is expected to continue to grow vigorously in 2004, the annual growth rate may reach its highest level since 2000. Economic growth, however, will continue to be driven by countries of Asia - except Japan - and the USA though Japan has also started to grow after a long period of stagnation. In Hungary's most important export market - the EU region - moderate growth will continue in 2004 despite uncertainties regarding current and short term outlook. Previous growth projections have been reduced somewhat - on account of the higher oil prices - and at present a 1.6 % GDP growth is expected for the year. The expectations of growth are supported by a global economic upswing taking place on a geographically and sectorally broadening basis along with the strengthening of foreign trade turnover as well as the assumption that investments will be promoted by favourable financing conditions, the improvement of efficiency and profitability of the business sector and expanding global demand.

*Accelerating external growth and the possibility of export market diversification indicates growing demand in export markets though some geo-political uncertainty persists*

In the Euro-region the potential risks more or less offset one-another. Global trade may grow faster than currently predicted, expanding thereby the export markets, boosting the growth of the region but the same time higher oil and consumer goods prices may restrain the economic growth and may weaken price stability. The price of oil, which has started to increase also in terms of the Euros during recent months, is in real terms still way below the peak measured during the second oil crisis<sup>2</sup>. The price rise is a result of the uncertainties caused by the war on Iraq and the increase of demand induced by the global economic upswing.

*The growth risks of the Euro-region seem to be balanced at present*

The Central and Eastern European countries constitute a growing export market segment where the economic growth and import demand dynamics are expected to exceed the EU average rates in 2004 again. In all, although geo-political uncertainties should not be expected to disappear from the world for some time to come yet both the improvement of general external economic growth conditions and the possibility of export market diversification are indicative of a likely growth of demand for Hungary's exports in 2004, promoting thereby the healthy structural growth of the economy and an improvement of external equilibrium.

<sup>1</sup> Sources: "The Economic Impact of Higher Oil Prices" ECOFIN 18 May 2004; ECB Monthly Bulletin 2004 May; „Az energia árak sem nőnek az égig” (Energy prices do not grow sky-high either) Hegedűs Miklós GKI, Világgazdaság

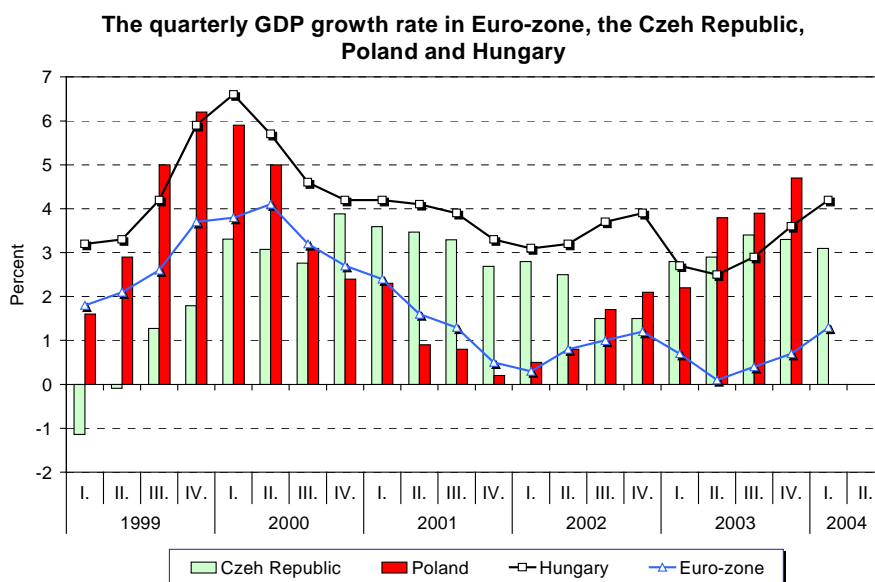
<sup>2</sup> In early 2002 the price of oil was at its lowest during the recent two years. By contrast, in May 2004 a 78 % growth took place in terms of USD (or 31 % in terms of EUR). In real terms, however, the price of oil is still much lower than it was at its peak during the second oil crisis in 1979 and 1980. Current expectations in the market expect prices some 25 % higher (at about USD 39/barrel) for 2004 and 15 % higher (at USD 33/barrel) for 2005. In the Euro region this may reduce the annual GDP growth by some 0.2 percentage point and may increase inflation by 0.2 percentage point (this correction was taken into account in the new forecast). As a percentage of GDP the demand for energy dropped by about 50 % between 1973 and 2002 in these countries, consequently the impact of the oil price increase may also be less dramatic. In Hungary the import content of energy carriers may be higher than the EU average but in the export-oriented manufacturing industry - in view of the restructuring and the technical modernisation in the nineties - the energy import content is below the EU average. Accordingly, the effects of the energy price rise on prices may be larger than in the EU15 but in the export-oriented manufacturing industry they will be smaller.

## 2. Growth

In the first quarter the gross domestic product increased by 4.2 %, far in excess of the expectations of market participants. Since the third quarter of the previous year the growth of GDP has been steadily accelerating. It was the second quarter of 2001 when the economy grew by 4 % for the last time. Although 2004 is a leap year, but this fact had no significant impact on the growth rate for the odd day fell on a Sunday and the number of the working days in the first quarter was equal to that of the first quarter of 2003. During the remaining part of the year there will be three more working days than last year which will have a positive impact on economic growth in the next quarters.

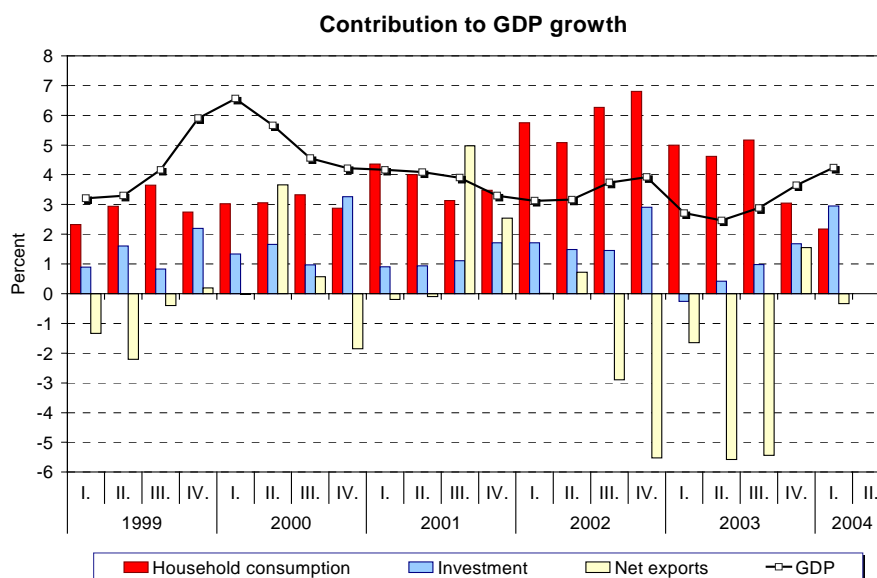
*Economic growth unmatched during the recent three years*

The strengthening of economic growth is in line with the favourable foreign trade conditions. According to preliminary figures the economies of countries of outstanding importance from the aspect of Hungarian exports are also growing favourably.



The objective of the economic policy applied in 2004 has been to alter the unfavourable economic structure resulting from processes during the past two years. According to data registered in the first quarter of this year the earlier consumption-driven growth has been gradually replaced by export and investment driven growth and the structure of the demand side of GDP has also shifted in a favourable direction.

*Economy driven by investment and exports*



The dynamic of **household consumption** continued to decelerate during the first quarter in accordance with the restricted growth of real earnings. Retail trade figures also confirm the slow-down of the dynamic of consumption, the volume of turnover increased by 4.9%, a rather modest figure in comparison to the corresponding figure of 2003. Over the whole of 2004 consumption is expected to increase at a much lower rate (some 2%) than in 2003, which is in line with the economic policy objectives pertaining to returning to a balanced growth path.

*Diminishing consumption*

The volume of the gross fixed capital formation increased very dynamically, by 18.9 % in the first quarter of 2004. The investment activity of the corporate sector, including especially that of the particularly important manufacturing increased vigorously. Investment was increased both in the household and the general government sector. Further growth of investment is expected to take place in each of the three sectors during the remaining part of the year, primarily owing to investment in the manufacturing, the infrastructure (motorways ) sector and housing construction. Our 2004 projection is increased somewhat, to 7-9 %.

*Substantial investment activity*

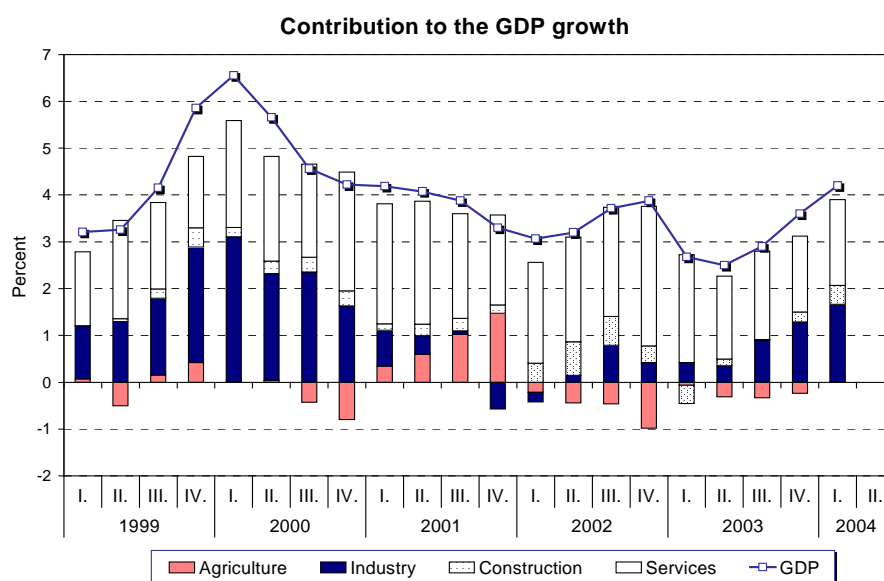
In foreign trade the favourable growth dynamic observed from the second half of 2003 continued in the first quarter of this year. The **exports of goods and services** increased by 17.4%, that of imports grew by 16.6 % over the previous year's figure. Quite favourably, the high growth rate of imports results more from the increase of imports for investment and production, rather than consumption. In the first three months of 2003 net exports reduced economic growth by a significant 1.6 % while in the first quarter of 2004 it only reduced economic growth by 0.3 %. In the second quarter the growth of volume of exports and that of imports are both expected to develop as they did in the first three months. In the second half of this year however, dynamic is expected to decline as a result of the extremely high basis. The previous forecast is increased, exports and imports are expected to increase in the whole of 2004 by 10-12 % and by 9-11 %, respectively.

*Continued dynamic of foreign trade*

The production side structure of GDP also developed favourably: the function of services as the main engine of growth is gradually taken over by the productive sectors. The growth of value added by industry was close to 7 % - a similarly high rate was last observed in the third quarter of 2000. The growth of the service providing sectors continued to be higher than 3 %. After a substantial decline of the output of the agricultural sector over 8 successive quarters agricultural production stagnated in the first quarter. The performance of construction increased significantly again, partly as a result of the low basis figures caused by last year's cold winter.

In the remaining part of the year the productive sectors are expected to increase their share and a modest deceleration of the growth of services is expected.

*Growing dominance of productive sectors*



In our GDP forecast for 2004 it must be taken into account that owing to the high basis in the second half of the year growth rates will inevitably decline in comparison to the corresponding quarters of 2003. The earlier projection of 3.3-3.5% growth of GDP for the whole of the year is increased owing to the better than expected first quarter figures: the growth of the economy may total at around 3.5%, or a little higher.

## 2.1 Wages and earnings

The monthly gross nominal average earnings of full time employees of the national economy increased according to data published by the Central Statistics Office by 9.4 % in the first quarter of 2004. The growth rate equalled 11.5 % in the business sector - enterprises employing at least 5 employees - and it was 6.3% in the government sector. The annual growth rate of the net earnings was somewhat lower than that of gross earnings.

*Growth of gross earnings in the national economy is slower than in 2003*

**Monthly average earnings**  
**in the first quarter of 2003 and 2004**  
the first quarter of the previous year = 100 (in per cent)

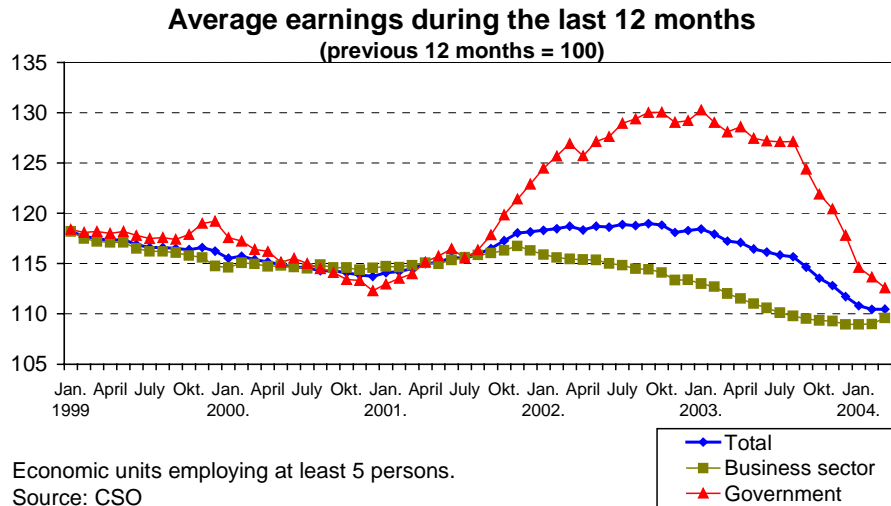
	Total		Business sector		Government	
	2003	2004	2003	2004	2003	2004
Gross average earnings	115,2	109,4	108,8	111,5	127,5	106,3
Net average earnings	119,2	108,0	115,0	109,4	127,1	105,9
Real earnings	114,0	101,1	109,9	102,4	121,5	99,2
Number of employees	100,9	100,8	99,6	101,4	103,7	98,9

Gross average earnings increased faster than expected, by 11.5 % in the whole of the business sector during the first three months of 2004. Outstanding growth was observed among those engaged in financial intermediation (29.6%). Higher than average growth was recorded in the branches of transport, storage and communication (13.2%), in the chemical products (13.4%), the manufacturing of basic metals and fabricated metal products (13,6%) and electricity, gas and water supply (12.4%). The rate of growth in the manufacturing was close to the average (11.9%). The outflow of wages was highest in March within the first quarter, primarily owing to a substantial increase of extraordinary payments (bonus and premium).

*Average earnings increased faster than expected in the business sector*

Taking all of these distorting factors into account the change of the average earnings in the business sector falls between 9 and 10 %. Such an acceleration of gross earnings may be related to the improvement of productivity and the growth of the services sector as well. This is also reflected by the 12 month gross earnings index whose lowest level was observed in January while figures on February and March are indicative of a modest growth. It would be difficult to judge the persistency of the dynamic of earnings in the business sector and the degree of the distorting effect of the month of March on the whole year, only from the figures on the first quarter. The growth of gross average earnings in the government sector this year - unlike last year - has no pulling effect on the average of the business sector for it is much lower than that. Accordingly, there is no pressure from the side of the public sector that would prompt further acceleration of the growth of earnings in the business sector.





A number of pay rises took place in the government sector last year - increases for civil servants, judges and prosecutors in the second half of 2003 (of about 12 %) influence the index of the first quarter – its carry-over effect will end in July this year. Within the branches of the government sector the first three months show wide variations, accordingly the gross average earnings in the sector increased by slightly more than 6 % only.

*In 2004 the rate of the growth of average earnings decelerated significantly in the government sector*

The rate of the growth of net earnings in the national economy fell short of the growth of gross earnings by 1.5 percentage points. The same indicator in the business sector where there was a higher rate of growth of gross earnings than the average of the national economy was over 2 percentage points while in the government sector it was below 0.5 percentage point. The gross earnings dynamic is higher this year than that of net earnings in which several factors of opposite directions were involved (1 percentage point increase of the individual health insurance contribution, termination of the 25 % tax benefit of the individual pension insurance contribution, improvement of the personal income tax schedule).

*Growth of net earnings less vigorous than that of gross earnings*

In 2004 the rate of the growth of earnings in the national economy will - according to our projection - be at about 8 %. It will be somewhat higher in the business sector (at about 9 %) while the earnings of those working in government institutions will grow by almost 6 %. The National Interest Reconciliation Council specified the recommended rate of gross earnings increase for 2004 between 7 and 8 %. Experience of previous years shows that growth usually exceeds the higher limit of the recommended band in the business sector. This is confirmed by the fact that in the corporate wage agreements processed and aggregated so far a 9.1 % gross earnings growth is provided for, as an average of some 160,000 people. Nevertheless, according to our own forecast in this year despite the data on March there is a better chance of the average wage growth not exceeding substantially the rate specified in the recommendation. From this aspect it is a favourable sign that the gross minimum wage is increased by a lower - 6% - rate than the average wage

*In 2004 gross average earnings should increase by about 8 % in the whole of the national economy*

and that this increased minimum wage is still free from personal income tax.

The real earnings growth in the national economy continues to be expected to fall between the 0-1 % band.

## 2.2 Employed and the unemployed

According to institutional statistics disclosed by the Central Statistics Office in the first quarter of 2004 the total number of the employees of enterprises employing at least five people and the budgetary institutions and the institutions of the social security system increased by 0.8 %, accordingly, a total of 2,766,000 people were employed during this period, in an average. Within this the headcount of the business sector increased by 1.4 %, that of the government sector dropped by 1.1 %. This favourable change of the headcount of the business sector was a result primarily of the upswing of the economy and it is expected to continue during the year, while the headcount of the public sector will continue to remain below that of the prior year throughout 2004, as a result of the 'streamlining of employment' in the public sector.

*Number of employees increased in the first quarter of 2004*

The trends of the data of the Central Statistics Office originating from surveys on institutions and households are identical but the data originating from the labour force survey which is more than the institutional statistics by the number of the employees of micro-enterprises (employing fewer than five persons each) and by selfemployed persons, a slower rate of growth may be derived. According to the labour force survey between February and April 2004 a total of 3,891,000 employees and 248,000 unemployed people were present in the labour market. The number of economically active persons is almost identical with the figure measured in the corresponding period of last year which is a result of a slight growth of the number of employees (by 8,000) and a like decline of the number of unemployed people. The degree of the change of the number of employees in comparison to the corresponding period of the previous year is within the statistical margin of error of sampling. At the same time the rate of employment calculated on the first four months of the year improved by half a percentage point (50.4%) in comparison to the corresponding period of 2003, resulting - besides the growth of the number of employees - from the drop of the number of people belonging to the age group between 15 and 74 years of age.

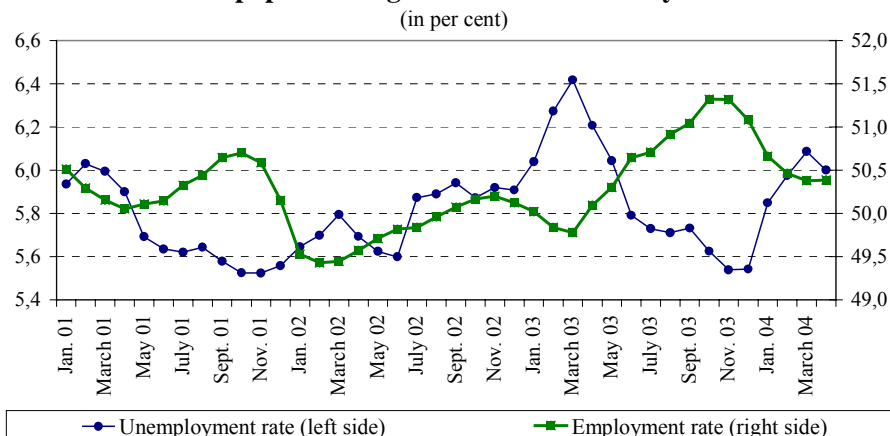
*Employment expanded during the first four months*

The 6.1% unemployment rate of the 15-74 year-old generation - calculated from rolling data - during the first four months of year 2004 was 0.2 percentage point below the figure registered in comparison to the corresponding period of 2003. The dynamic of the ratio gradually declined from the beginning of the year but the unemployment rate of the young (14-24 year) generation was 14.2 %, by 0.6 % higher than the ratio recorded in comparison to the corresponding period of 2003. This figure is still regarded as favourable in international comparison (in March the unemployment rate in the same age group was 15.7 % and 18.2 % in the EU15 and the EU25, respectively), but their share within the total number

*Rate of unemployment at 6.1%*

of employee is high (21%) and this rate, just like their unemployment rate, is growing year by year. This trend is caused by the small number of part time jobs and the favourable growth of further education opportunities.

**Employment and unemployment rate  
of the population aged 15-74 from January 2001.**



According to our calculations the rate of unemployment should end up at about 6 % or slightly below that in 2004. According to our forecast the number of employees on the level of the national economy as a whole will increase by 0-1 % this year. The peak of the three month employment rate is expected to be observed in the middle of the fourth quarter while the unemployment rate may drop to as low as 5.5% at that time. During the whole of the year the rate of employment and of participation should increase slightly but no major labour market growth is expected to take place.

*In 2004 unemployment rate is expected to be below 6 %*

### 2.3 Consumption, retail trade

One of the key objectives of the economic policy for year 2004 was to alter the structure of the use of GDP including a reduction of the rate of growth of consumption. According to the first quarter figures this change of trend has taken place, the growth of **household consumption** was slower than in preceding years:

*Growth of consumption decelerated*

**Household consumption in the first quarter**

(Index: corresponding period of previous year = 100)

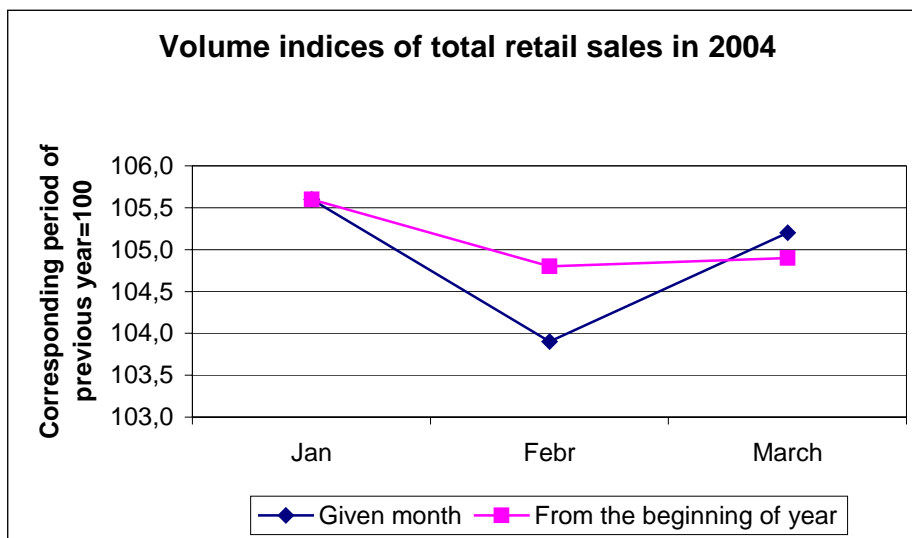
	2001	2002	2003	2004
Consumption expenditure	106,5	110,5	108,5	103,8
Transfer in kind	107,7	101,7	101,6	99,3
Total	106,7	108,7	107,2	103,0

The deceleration of the growth of consumption expenditure (primarily household purchases) was caused partly by the lower (as intended) dynamic of nominal incomes along with an interim acceleration of inflation. The small volume decline of transfers in kind was a result of the diminishing of the number of employees working in education and in the health sector.

The rate of the growth of volume of **retail turnover** also decelerated substantially, primarily in food, beverages and tobacco retail trade. The volume of sales - net of the sector of motor vehicle and fuel trade - adjusted with the number of working days, increased in the first quarter by 6.3 % in comparison to the corresponding period of the previous year. The turnover of trade in motor vehicles and motor vehicles parts and accessories increased only by 1.6 % partly as a result of the uncertainties at the beginning of the year in relation to the registration tax.

The volume of the unadjusted total retail turnover exceeded that of the first quarter of 2003 by 4.9 %:

*The rate of the growth of retail trade also diminished*



The number of retail shops declined slightly during the first quarter in comparison to the number recorded at the end of December 2003. Primarily the number of food, beverages and tobacco retail shops dropped and the decline was observed primarily in villages.

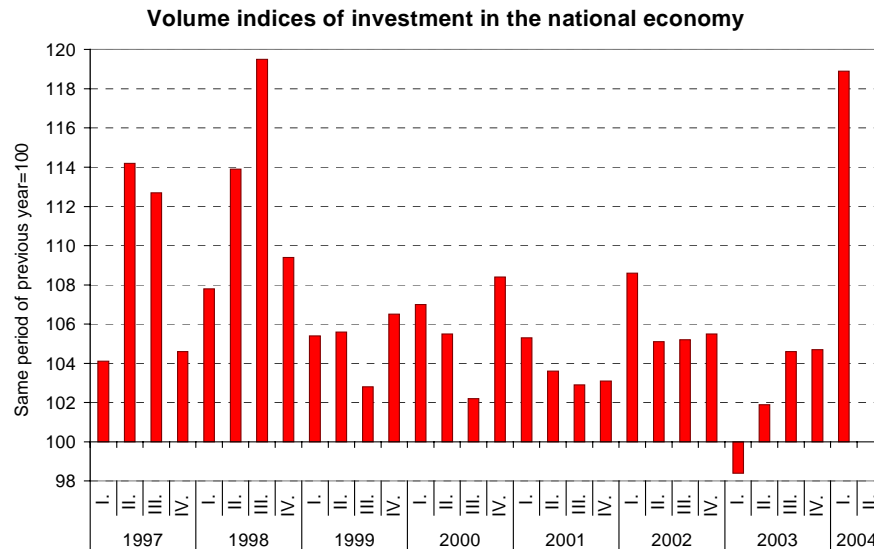
The data on the first quarter show that a process of deceleration has commenced in the dynamic of the real income of households and in that of the spending of such income, but the degree of deceleration has not yet reached the intended measure. During the remaining part of this year the dynamic of consumption and that of retail trade are both expected to continue to decline. Over the whole of the year household consumption is expected to grow by 2 %.

*The dynamic of consumption is expected to continue to decline*

## 2.4 Investment

The volume of investment in the national economy increased in the first quarter of 2004 by an extremely high rate of 18.9%. After the lowest rates in the first quarter of 2003 investment activity has been growing steadily and only in the third quarter of 1998 was a growth rate (20%) similar to that of the first quarter of 2004 observed. In comparison to the previous quarter - according to indices adjusted seasonally - the volume of investment increased by 4.6%.

*Outstanding performance in first quarter*

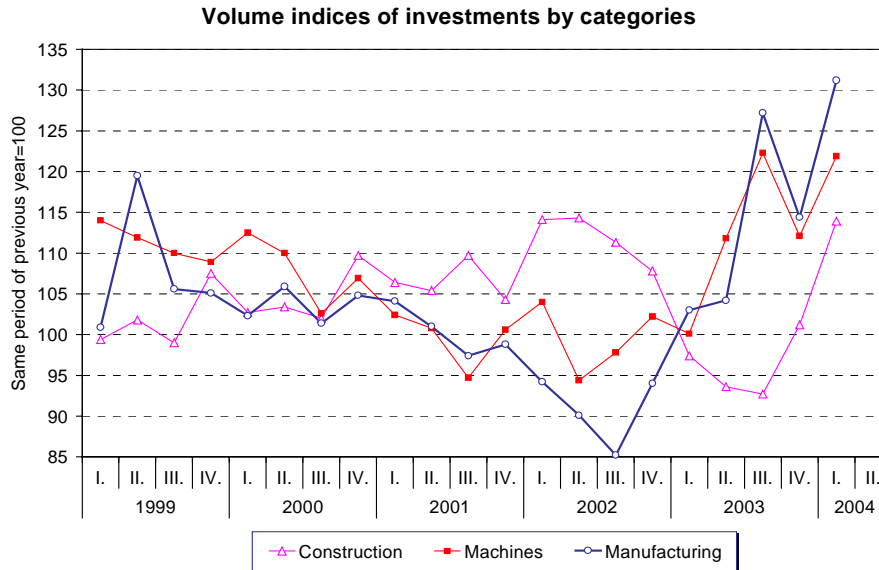


An analysis of data on investment in the first quarter will reveal that the favourable change of the structure of investments and the growth of the share of the private sector continued. The rate of growth of investment in machinery remained in the two-digit range (13.9%) while construction investment increased by almost 22%. There had been no quarter before the first quarter of 2004 - not even in 2002 which was an outstanding year - in which construction investment increased by more than 15%. In addition to the low base year in 2003 the construction boom was a result primarily of construction.

*Favourable structure has been maintained*

Investment in the manufacturing industry which is indispensable for any acceleration of the economic growth, continued to expand very dynamically: by 31.2%. Substantial growth was observed in real estate (19.9%), agriculture, hunting, forestry and fishing (31.5%), and in the transport, storing, and communications (66.1%) sections as well. The dynamic growth of this latter sector was a result to a considerable extent of the intensification of public road construction. At the same time from among the sectors of state administration investment increased only in the area of public administration while investment in education and the health sector declined by more than 10 %.

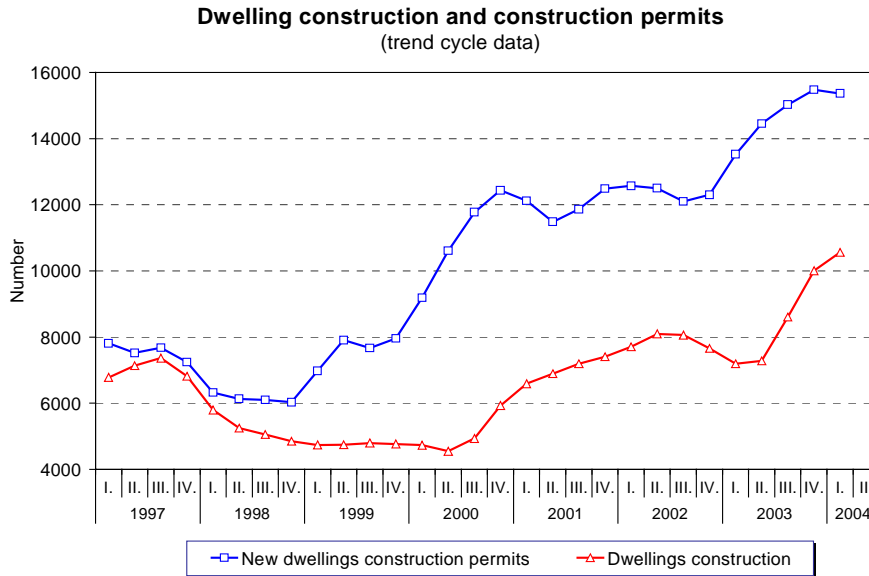
*Over 30 % growth in the manufacturing*



The number of dwellings put to use and that of construction permits issued in the first quarter of 2004 was higher than the figures recorded in the corresponding period of the previous year, by 55 % and 6 %, respectively. The substantial increase of the number of dwellings was partly a result of the low base figure explained by the cold winter last year. The deceleration of the vigorous growth of the number of permits issued which was characteristic of 2003 took place already in the first quarter of this year, as had been expected.

*The number of dwellings increased by more than 50 %*

On the basis of the new building permits issued in the whole of year 2003 and in the first quarter of 2004 the dynamic of dwelling construction is expected to continue during the remaining part of this year. In view of an average of five quarter construction period the housing boom is expected to last until about the second half of 2005. The number of dwellings put to use this year may exceed 40,000, exceeding the preceding year's figure by about 15 %. Owing to the high basis figure, however, the number of permits issued is expected to fall substantially short of the preceding year's figure.



The investment activity of the corporate sector - owing to the external economic growth, the favourable development of corporate profitability and the stock of orders - will continue to be dynamic during the remaining part of the year. In the second half of the year - thanks to the deliveries of motorways scheduled to take place in the third quarter and at the end of the year - public investments will increase again, after a decline in 2003.

*The growth of investments may accelerate by 7-9% in 2004*

Considering the fact that the first quarter of any year accounts only for about an eighth of the annual investment performance, the approximately 20 % growth will alter our projection only to a minor degree. The 6-8 % investment forecast contained in our previous report concerning the whole of 2004 is now increased slightly, to 7-9%.

## 2.5 Foreign trade

In the first four months of 2004 the dynamic expansion of exports which started in the second half of 2003, continued (the volume of exports grew by about 18 % between January and April) and this is regarded as a definite sign of the upswing of the economy.

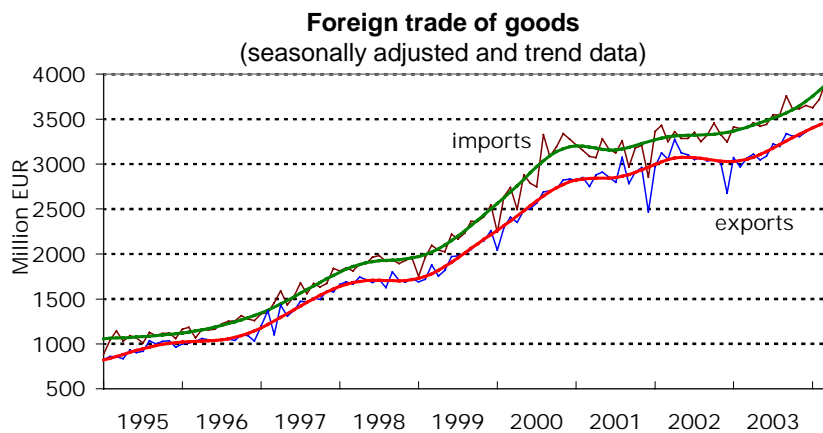
*The vigorous expansion of exports continues*

In the first two months of the year imports increased more moderately (by 13-14%), and then in the months of March and April it began to accelerate owing to the companies' duty free import purchases or such purchases under favourable tariffs brought forward prior to the EU accession, which were carried out primarily by customs free zone companies. On the whole, imports increased during the first four months of the year at a slower rate than did exports, by about 17 %. Imports brought forward in time have been effected primarily for purposes of exporting, which means that continued vigorous growth of exports should be expected in the next period accompanied by a slowdown of the growth of imports, resulting in an improvement of the foreign trade balance.

*Imports have increased slower than exports*

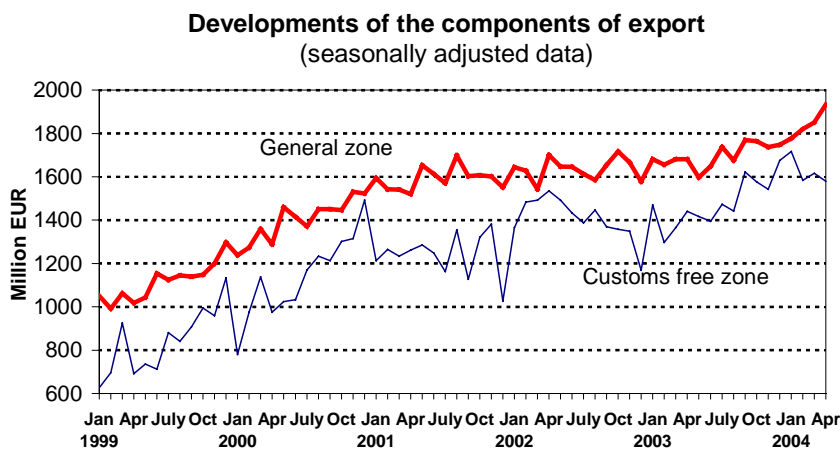
In January to April 2004 exports amounted to EUR 13.6 billion while

imports totalled EUR 15.1 billion, recording a growth rate of 13.6 and 1.29 per cent comparing to the corresponding period of 2003. (In terms of HUF exports increased by 20.3 %, imports grew by 19.5 %.)



In the first quarter of this year the volume of **exports** increased by an average of 20 %, while slightly declined in April still running at a high rate (16 %). (The data on April is a preliminary actual figure estimated by the Central Statistical Office, owing to the closure of some of the customs offices before Hungary's EU accession there is an extremely large number of 'unprocessed export document' therefore the growth of exports may be even higher according to the final fact figures.) The **commodity structure** of exports continued to be dominated by the exports of the engineering sector (by 22-23%) in terms of volume: the export of mobile phones, motors, passenger cars and communication as well as office equipment grew significantly. The export of manufactured goods accelerated month-by-month, their volume increased by 12-13% in the first four months. The export of medicines, chemical products and non-ferrous metals also increased faster than the average. The exports of the food sector declined from March, falling short of the base level in the first four months.

*The rapid growth of exports was a result primarily of the higher than average growth of machinery*



Much of the **growth of imports** (almost 40 % of the increment) originates from imports from developing countries for the purposes of exports (37 % in terms of volume). In the months of March and April

*Imports for the purposes of exports have increased*



Hungary's imports from third countries, outside the European Union, (including developed, CEFTA countries and Russia) increased substantially owing to the advancement of purchases.

*dynamically*

The approximately 20 % volume increase of the imports of machinery for purposes of exports, in particular the import of electrical component, integrated circuits and machine components, was the dominant factor of the **growth of imports**. The import of manufactured goods increased especially rapidly in March and April, which is explained by imports brought forward in time. Imports for investment purposes also increased (the imports of machines and transport equipment grew by about 20%). Imports for consumption (first of all that of medicines, passenger cars and food products) also accelerated but its rate fell short of the average and owing to the small share of this category it did not make much contribution to the overall growth of imports.

*Imports of investment machinery increased along with - at a smaller rate - that of consumer goods*

In respect of **groups of countries** exports show a favourable trend: some 70 % of the increment of exports was a result of the 16-17 % growth of Hungary's exports to developed countries. Our exports towards developing countries increased the most dynamically (by about 60 %) but the weight of this element is rather small in the total exports. Sales to CEFTA countries increased by about 20 %. The dominant element of imports was the growth of imports of machinery from developing countries (almost 50 %). Imports from East European countries also grew substantially (by about 24%), while imports from developed countries and the EU grew by 10 % and 7 %, respectively.

*Some 70 % of the increment of exports was made up of sales to developed countries*

The **deficit of the foreign trade of goods** amounted to EUR 1.5 billion, some EUR 0.1 billion more than in the base period. Deficit in trade of goods with developed countries outside the European Union, developing and East European countries (including particularly Russia) increased, primarily owing to imports brought forward, this latter amounting to at least EUR 300 million without which the deficit of trade of goods would have improved by some EUR 200-300 million.

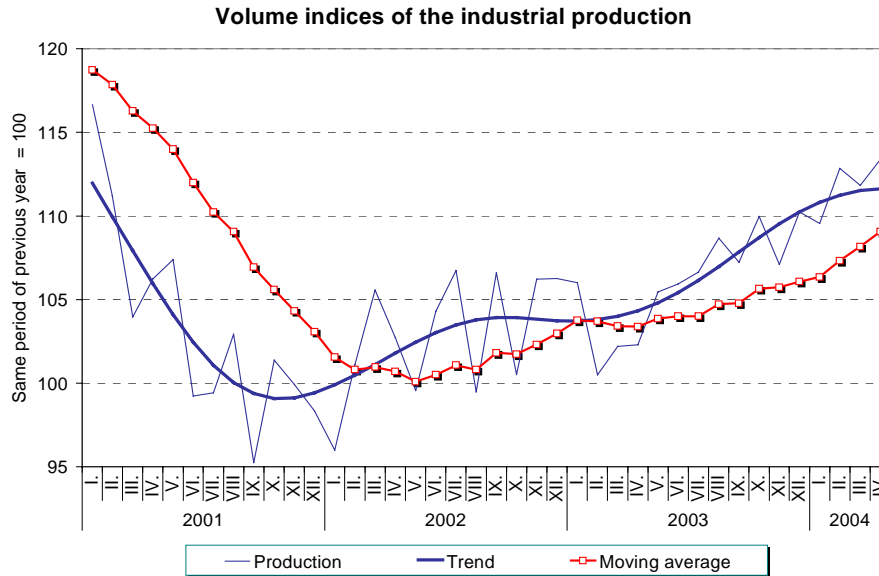
*The slight deterioration of the foreign trade balance was a result primarily of the advanced imports*

In the remaining part of the year the dynamic growth of the export of goods will continue - based on the growth of investments and of external demand - though its rate may diminish somewhat in comparison to the high basis recorded in the second half of 2003. **In all** a total of 11-13 % growth of exports of commodities and an increase of 10-12 % of imports is expected along with a deficit in the foreign trade of goods more or less equalling last year's figure.

## 2.6 Production

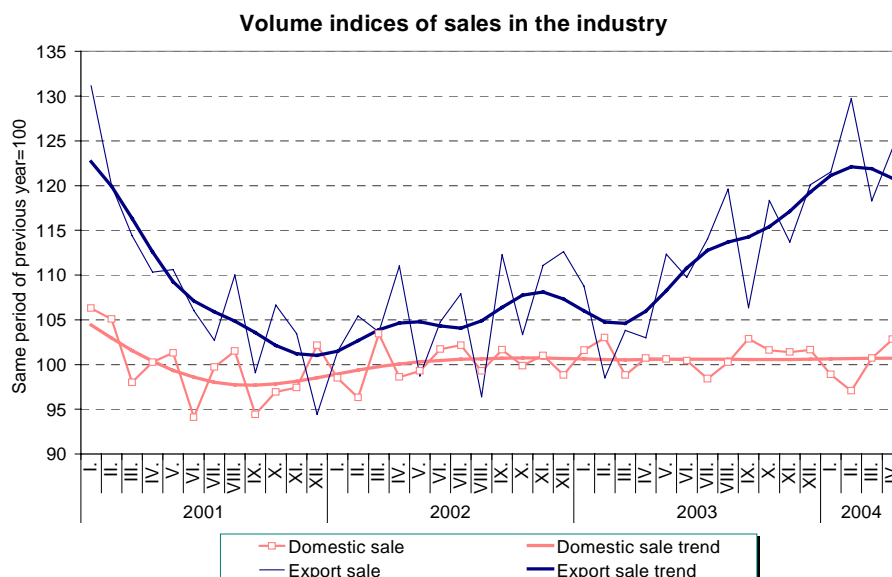
According to preliminary figures published by the Central Statistics Office industrial output increased dynamically during the first four months of the year, by 10.4 % over the figure registered last year. The April trend figure was 11.6 %, the 12 month retrospective average was 9.1 %. Detailed data are available only on the first quarter.

*Industrial output increased by over 10 %*



Export sales continued to be the main engine of production which increased by 21 % during the first three months of the year, while domestic sales fell short of last year's figure by 1 %.

*The growth of exports was almost twice as high as that of the output*



The output of manufacturing employing more than five employees increased by 14 % between January and March. With the exception of the food industry - whose output stagnated - and the textile and leather industry - which continued to diminish - each of the branches increased its output. The largest growth of output was registered in the first three months in the electrical and optical equipment (32 %), while the equal growth of 32 % of exports of this branch was only the second highest rate behind metallurgy which - though only of a small weight - increased even faster. The output of sales of transport equipment increased by 10 %, its exports expanded by 15 %, along with substantial decline of its sales in the domestic market. On the whole, the domestic sales of the manufacturing stagnated but there was a definitely high demand for the

*The highest dynamic of growth was recorded in two dominant branches of the manufacturing*

products of the construction materials industry (21 %) and the increase of the domestic turnover of the electrical and optical equipment is also regarded as quite high (14%).

The volume index in March of new orders increased by a total of 20 % over the preceding year's figure, within which the portfolio of export orders grew by 27 %. From among the branches reviewed the volume of the new export orders of the transport equipment declined - by 11.5% - while the rest of the branches recorded dynamic increases. The trend of the development of new domestic orders was almost precisely the other way round, out of the seven priority branches only three recorded growing demand for their products. From among these the largest increase (21 %) was booked in the new orders for products of the machinery and equipment manufacture.

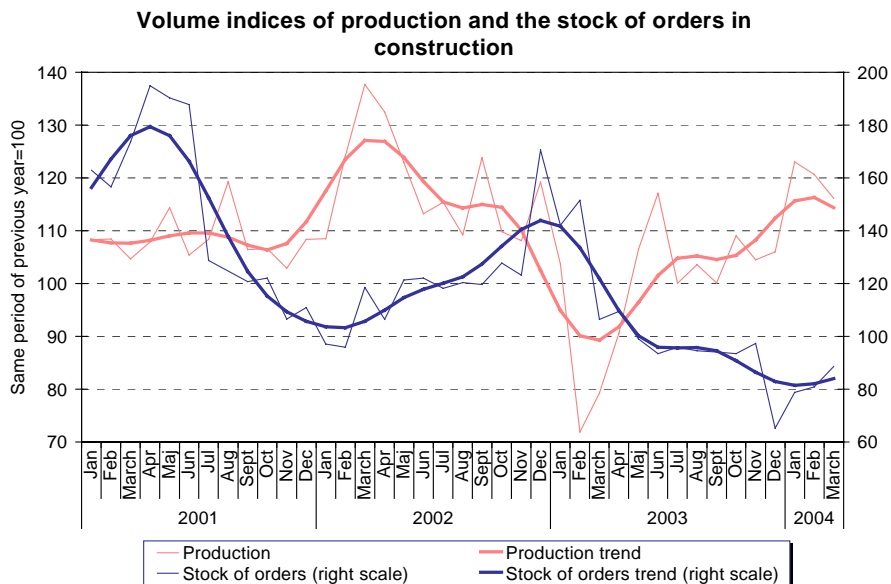
*New export orders of industry looking up*

The data on investment in the manufacturing during the first four months and the exports orders - considered both dynamic and balanced - are indicative of an acceleration of the annual output of industry but the increasing rate of growth of the output from the beginning of 2003 (i.e. the basis effect) tends to reduce the rate of growth. In view of these two opposite impacts the growth of the output of industry is expected to fall between 8 and 10 % in 2004.

*Industrial output is expected to grow by 8-10 % in 2004*

The output of the **construction** exceeded that of the corresponding period of 2003 by 19.5 % in the first three months of the year. The number of building complete structures or parts thereof increased by 34 %, the output of building completion grew by almost 8 % while building installation expended by 1 %.

*The output of the construction increased by almost 20 %*



The volume of *new contracts* concluded during the month of March in 2004 was 23 % larger than in 2003, within which the number of new contracts concerning 'civil engineering works' increased by 30 %, while that of the 'buildings' had been declining before March, increased by 17 %.

*The portfolio of new contracts has been growing dynamically*

As a consequence of the rapid growth of housing loans last year a significant growth of residential construction is still expected to take place this year. The motorway construction programme has also been accelerated this year. These will entail continued dynamic growth of new orders as a result of which the output of construction is expected to grow by about 5 % during the year.

*Perspectives of construction this year are increasingly promising*

When our latest report was put together no adequate information was available with respect to the year 2003 performance of **agriculture**. According to preliminary figures the output of the sector fell short of the low output of 2002 by almost 5 %. Crop production declined by 12.5% at constant prices, that of livestock production grew by 3 %.

*Preliminary data on the year 2003 output of agriculture*

The procurement of agricultural products in the first quarter of 2004 fell short of the figure registered in the corresponding period of 2003 by 11 %. The sale of crop products declined by 33 % in comparison to the figure of the corresponding period of 2003, primarily owing to the smaller volume of the grain supply. The procurement of livestock and animal products declined by 6 % from last year's corresponding figure. The producer prices of agricultural products were 14.5 % higher in the first three months of 2004 than in 2003, while the prices of agricultural input grew by only 11 %.

*The procurement of agricultural products declined, the producer prices of the sector increased*

In contrast to the extreme weather conditions of 2003 the first five months this year were characterised by weather patterns definitely favourable for agricultural production. The quantify of precipitation made up several years of deficit giving rise to hopes for high yields. According to the findings of a survey carried out as of 1 April the cattle, pig and poultry stocks declined, the number of pigs is even below the record low registered 10 years ago.

*This year's crop production looks promising*

The first quarter brought about a definite growth of the performance of the **transport**. From among the various sub-sectors of transports international rail goods transports grew at the highest rate, but the output of air passenger transport also grew dynamically. The earlier rapid growth of the number of new passenger cars, registered first time in Hungary, however, decelerated somewhat.

*Growing performance of transports*

### 3. Monetary processes

#### 3.1 Measures taken by the central bank

The central bank has been pursuing a rather cautious interest rate policy in the almost six month period that has passed from 2004. The extremely high base rate resulting from the weakening of the HUF at the end of 2003 was maintained almost throughout the whole of the first quarter. The interest rate cuts later on - in contrast to the twice 3 percentage point increase - were rather modest as a result of which the indicative interest rate applied by the central bank dropped to 11.50 % by the beginning of May.

*The extremely high base rate has declined only slightly during this year so far*

According to the position statement made by the Monetary Council on 17 May at the time of the publication of the Inflation Report the continuation of the fiscal adjustment, the deceleration of the growth of wage outflows, the growth of household saving propensity and the improving inflationary perspectives may create opportunities for the continued reduction of the still high interest level. At the beginning of June, based on the improving economic performances and the exchange rate stabilising at a stronger level, the market and the majority of analysts also expected an additional interest rate cut, but this did not take place at the meeting of the Monetary Council on 8 June. Accordingly, the monetary policy is still dominated by caution owing to inflationary and capital market risks.

The diminishing of the inflation rate continuing in the second half of the year may contribute to a loosening of the tight monetary policy. Accordingly, if no developments take place in the money markets that have a negative influence on domestic processes, the base rate should decline more significant during the months to come. Analysts expect a 2-3 % central bank interest rate cut leading to an about 9 % base rate.

*Continued decline of inflation is promising additional marked reduction of the base rate*

The NBH noted in February that it intends to sell some EUR 1 billion during the course of the year in the foreign exchange market. These transactions are aimed at the coordination of the HUF and foreign exchange market processes as well as at the accomplishment of liquidity management objectives. The amount may change depending on the development of the liquidity position of the banking system and the foreign exchange financing of the central budget. This instrument is not aimed to be applied to influence the development of the exchange rate of the HUF, therefore, placement on the market will take place in numerous small instalments, accepting prevailing prices.

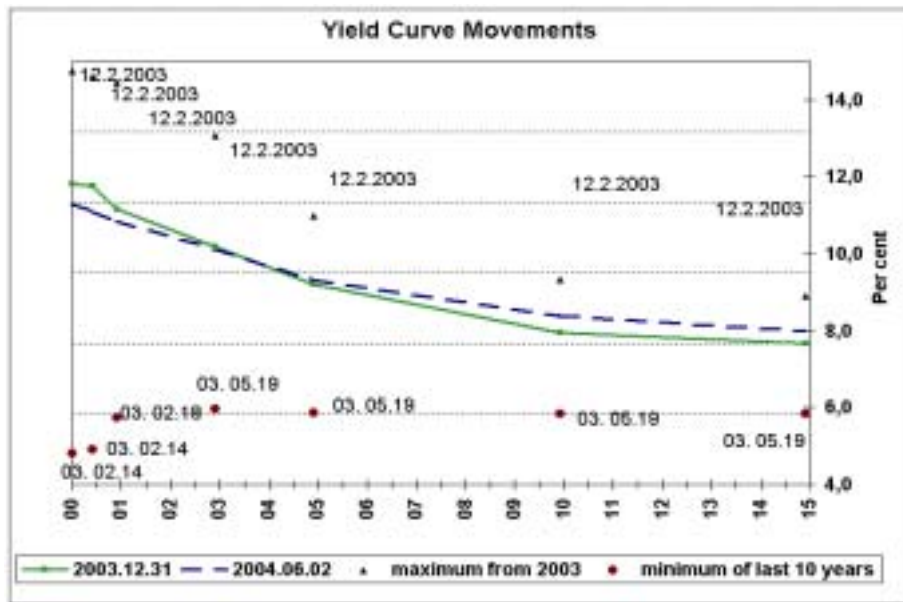
In accordance with the strategy established earlier income centralisation through mandatory reserving was terminated with effect from 1 May. Since that day the interest paid on the obligatory reserves equals the base rate applied by the central bank, as modified from time to time.

*Income centralisation through obligatory reserving has been terminated*

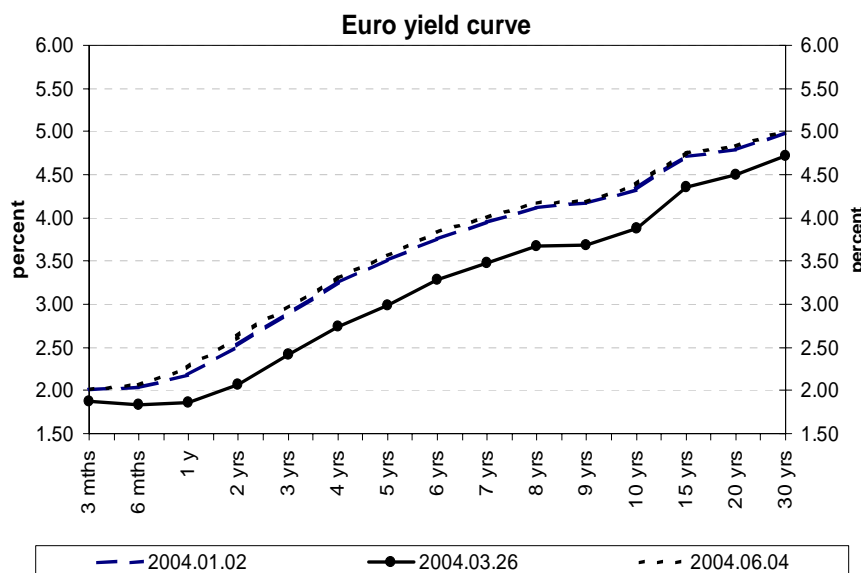
### **3.2 Development of yields and interest rates**

Yields steadily declined on all maturities between February and early May in 2004. Short term yields declined in concert with the total of one percentage point cut of the central bank base rate while the long side of the yield curve decreased along with the improvement of the perceptions of the economy. A correction took place in early May whereafter the yields remained unchanged in essence though a growth trend may be observed in the middle and the long side of the yield curve. On the whole, the development of yields in 2004 was substantially more stable than had been in 2003.

*More stable development of yields in 2004*

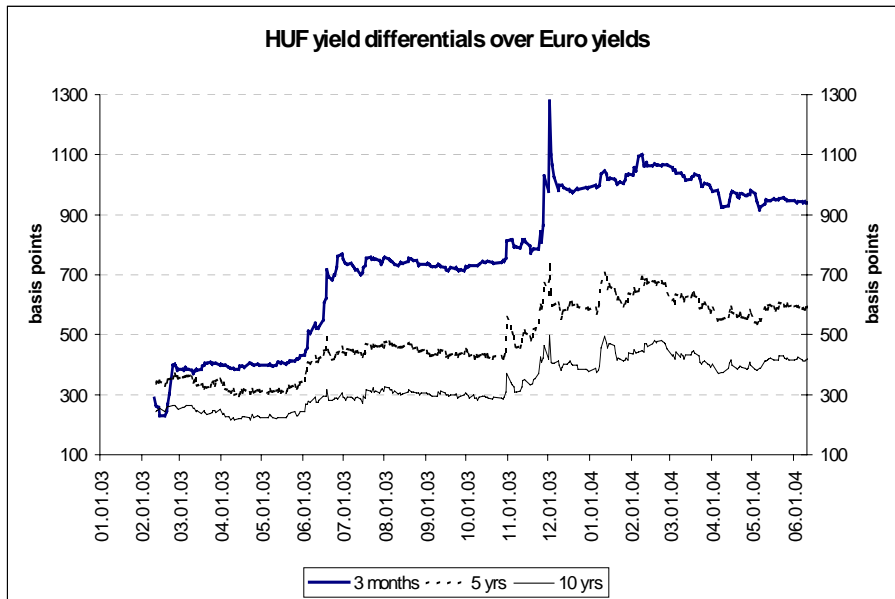


Euro yields declined in early 2004, reaching the lowest at end-March this year. On the longer than one year maturity period the drop equalled about 50 basis points. Since April, however, a growth of yields has been observed, as a result of which the yield level returned by early June to the level that was recorded at the beginning of the year. The short yields were driven by expectations of an interest rate decision by the ECB: so far in 2004 the ECB has not altered the 2 % level which qualifies as an all time low.

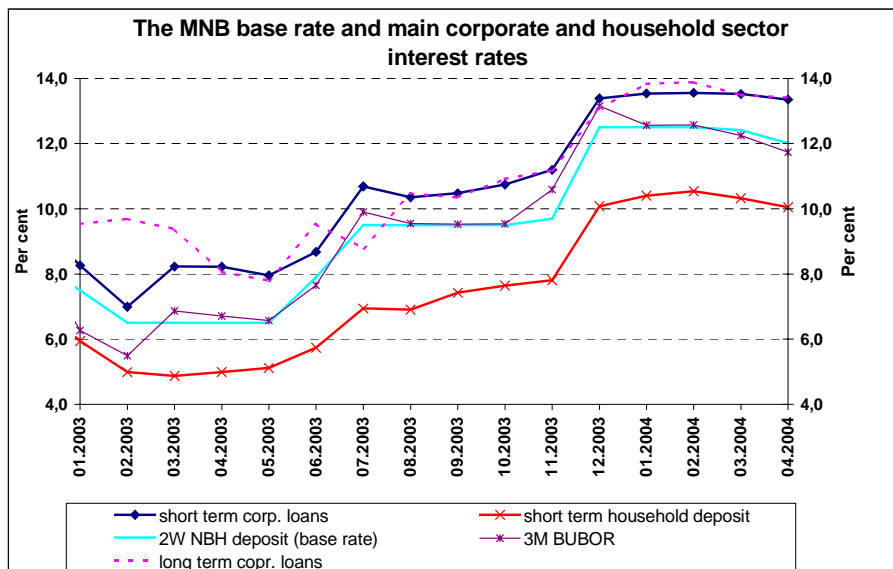


The HUF premium over the Euro declined in March and April and then in May it increased in line with the trend of growing premia in each of the emerging countries. At the same time the premium of Hungarian government securities denominated in Euro remained stable.

*Steadily high HUF  
premia over the Euro*



Bank interest rates developed in an essentially stable manner during the months that have passed so far in 2004. Deposit and lending rates alike have been following the changes of the base rate. As a result of the 300 basis point increase by the central bank in November last year banks increased their rates on deposits until February and then in accordance with the trend of declining yields deposit interest rates also diminished slightly.



From the over 6% level in February the forward looking real interest rate declined somewhat but even in May it was still at an extremely high level over 5 %. The negative value of the ex-post ratio is explained by the fact that it still compares the existing higher level of inflation to the 2003 yields but as soon as the yields increasing from 2003 appear in the calculations - together with decreasing inflation - this ratio is also expected to increase significantly.

*Real interest rates continue to be high*



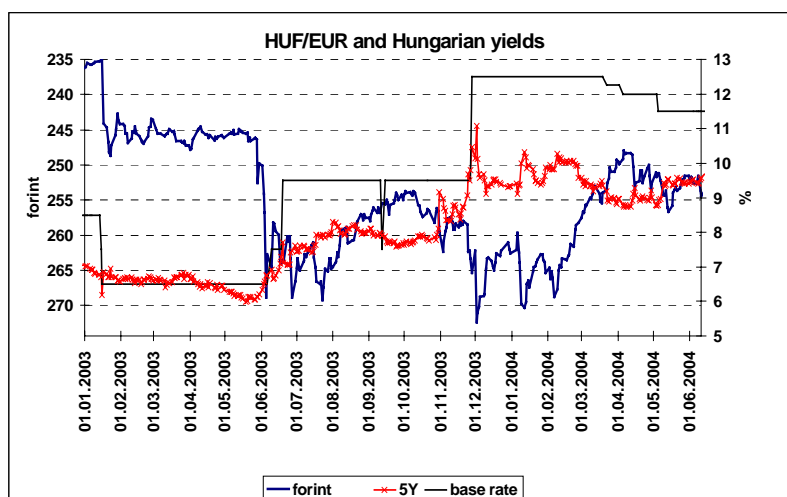
The ex-post real interest rate: yield of one year treasury bill issued 12 months ago, deflated by the current inflation. Ex ante: current one year treasury bill yield deflated by the inflation rate expected by analysts to develop in a year's horizon. Simultaneous: current yield to current inflation rate.

### 3.3 Exchange rate

The extreme volatility of the **exchange rate** experienced during the past year has practically disappeared since March this year because of the favourable developments in economic fundamentals and improvement in money market confidence. The exchange rate has been steadily strong, fluctuating typically between 250 and 255 HUF/EUR.

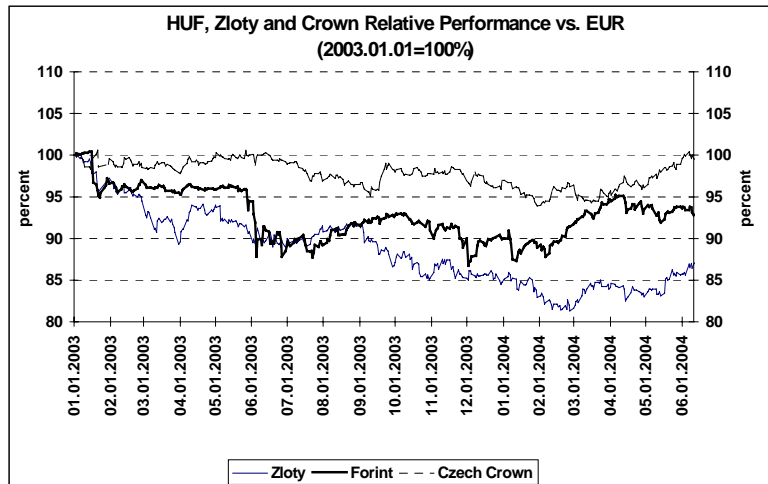
The positive developments that have unfolded are verified by the analysts' expectations assessed in the Reuters poll as of 24 May according to which the exchange rate is expected to fluctuate around 253 HUF /EUR in the entire time horizon (up to 2005). It should also be noted that this exchange rate level will prevail along with a significantly lower interest rate level than the rates observed today, according to analysts' expectations.

*The exchange rate has been steadily strong in concert with the positive change of the economic fundamentals and the improving market confidence*



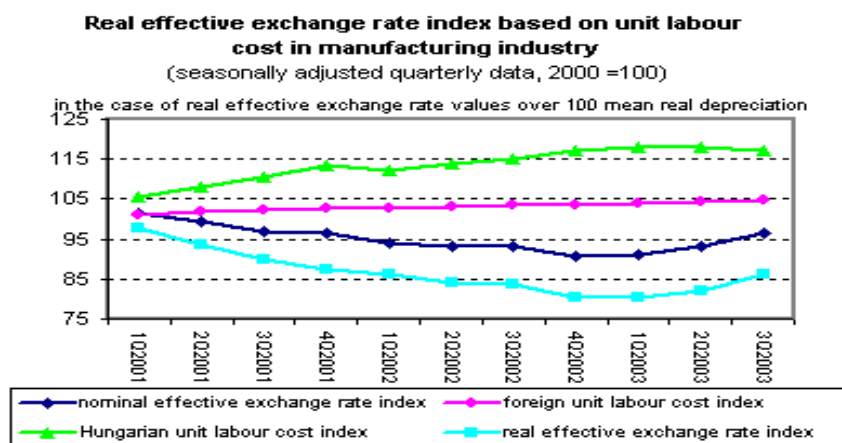


Comparing the exchange rates of the Czech crown, the Forint and the Zloty to the rates as of 1 January 2003 it can be concluded that the Czech crown has been stable, the zloty weakened substantially and the HUF has remained between the two throughout the period.



Year 2003 was a turning point in **competitiveness** of the economy. In 2001-2002 there was a sharp price and cost-based deterioration in competitiveness. During this period the real appreciation was approximately 16 % on the basis of the consumer price index and domestic sales price index of manufacturing industry while it was nearly the same – about 16.5% – on the basis of unit labour cost index of the manufacturing industry. The dominant factor of the real appreciation was - besides the nominal appreciation of the HUF - the wage increases significantly outpacing moderate productivity growth. This trend of deterioration has come to halt since the second half of 2003.

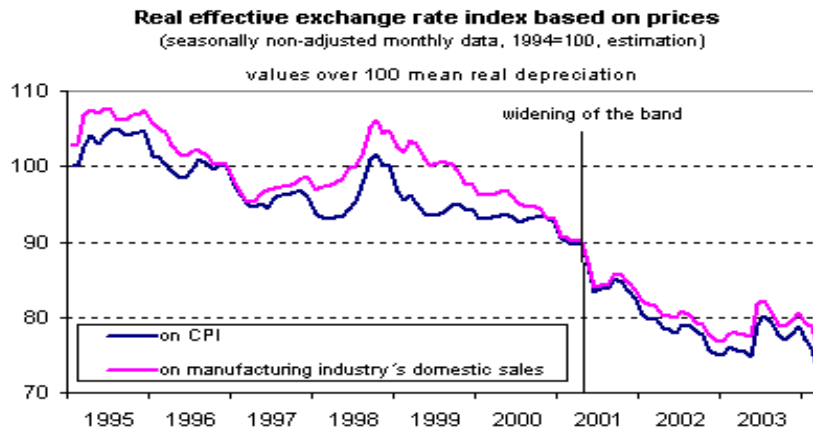
*The last year was a turning point in competitiveness*



The real effective exchange rate indices measured on consumer price index and domestic sales price index of the manufacturing industry in 2003 indicated only approximately 1 % real appreciation as an annual average. However, it is also very important that compared to the end of 2002, there was no deterioration even in the first five months of the last year; from June 2003 there was a significant change in tendency, as a result of a weaker nominal exchange rate, competitiveness started to improve.

*There has been an unfavourable change again in price-based competitiveness due to the temporary increasing inflation*

In the first quarter of 2004, price-based competitiveness has not signalled any major changes in comparison to the corresponding period of the previous year but the deterioration has already been visible in comparison to the end of 2003. For the whole of the year in price-based competitiveness an unfavourable change is expected again due to the temporary increasing inflation.



The real effective exchange rate index based on unit labour cost in manufacturing already showed a slight improvement even as an annual average in 2003. The development of the tendency of cost-based competitiveness is similar to the price-based ones but the process of changes during last year was even more favourable than in the case of the price-based index: comparing the last quarter of 2003 to that of 2002 a substantial, approximately 8 % improvement can be observed.

*The favourable tendencies that have commenced in cost-based competitiveness are expected to continue*

No data are available as yet on the development of cost-based competitiveness in this year. The favourable trend is expected to have continued even in the case of an unchanged nominal exchange rate level as well where the dominant element is that parallel with the acceleration of production increase the domestic unit labour cost - with productivity growth and wage increase becoming more and more in line – may further decelerate and may be more favourable than that in our main trading partners.

### 3.4 Financial markets

#### 3.4.1 Banks, insurance companies, funds

Financial intermediation grew substantially in 2003. The balance sheet total of the **banking sector** increased by 26%, a rate much higher than the nominal GDP growth during the year, which is considered as a significant increase even in view of the fact that some of the increase was caused by the weakening of the HUF. The share of foreign participation increased as a consequence of the privatisation of banks (Postabank, Konzumbank), while direct state ownership dropped to a negligible level.

*Stable financial sector, dynamically growing balance sheet total and expansion of lending*

Lending grew dynamically throughout the year: the total loan portfolio increased by 33 %. Loans to businesses increased by 23 % in comparison to the figure recorded at the end of 2002, while household credits increased by an even faster 66 %, primarily as a result of the 100 % increase of mortgage loans for housing purposes. Meanwhile, the deposits grew by less than 10 % - and even this increment was realised only as a result of the substantial interest rate increase towards the end of the year - bringing the lending/deposit ratio to over 110 %.

The quality of the portfolio of the banking sector<sup>3</sup> in comparison to end-2002, partly as a result of the substantial new credit portfolio. The earnings of the sector and its profitability developed extremely favourably even by international standards in 2003. The pre-tax profit of banks amounted to HUF 216 billion, exceeding the amount booked a year before, by almost 40%. The capital adequacy was stable although the capital adequacy ratio declined somewhat in comparison to end-2002.

**Insurance companies** continued to grow dynamically in 2003, as was reflected by the increase of the balance sheet total, premium revenues and reserves alike. The composition of the portfolios of insurers is still dominated by government securities.

The position of the **funds sector** continues to be dominated by private pension funds and voluntary pension funds. The membership and the membership fee revenues of all types of funds increased in 2003. The growth of private pension funds was partly a result of the re-introduction of mandatory fund membership for career starters. Special mention should be made of the dynamic growth of the voluntary health insurance funds in respect of all ratios, though their weight within the sector is still relatively small. The assets managed by funds increased by 30 % during 2003, at the same time the composition of the portfolio remained more or less unchanged, with investment in government securities still dominating the portfolio. In 2003 yields deteriorated owing to the events observed in the financial markets, but as a result of the stabilisation of the money markets yields may start increasing again.

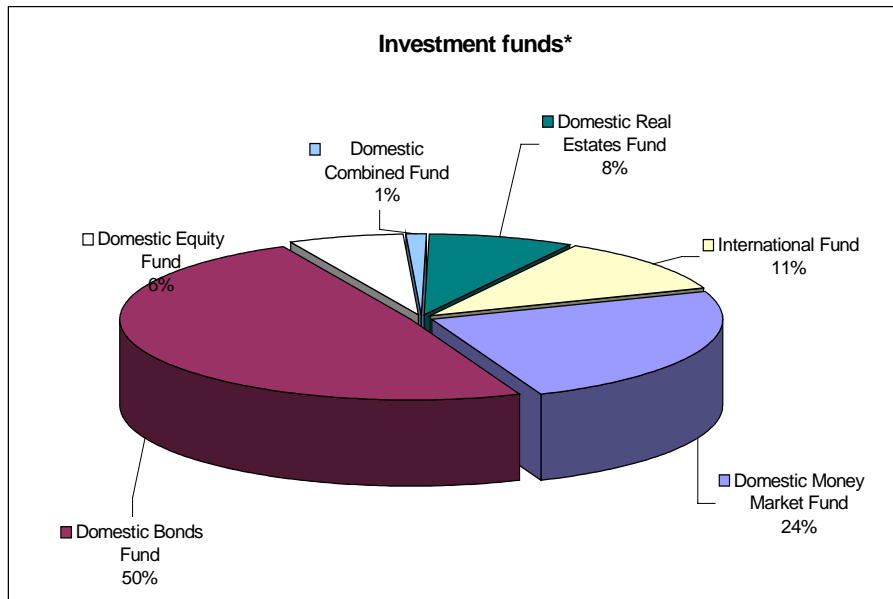
### 3.4.2 Investment funds

The decline of the net asset value of investment funds which started in June 2003 came to a halt in March 2004: At present the total of the assets managed by investment funds equals the level registered two years ago. During the past almost one year period the portfolio of investment notes held by households dropped primarily. The share of bond funds declined while that of the rest of the funds increased although the rapid growth of real estate funds had slowed down by 2004. In respect of the structure of the portfolios the growth of mortgage bonds is worth noting - this was related partly to the increase of mortgage lending and its way of financing.

*The loss of popularity of investment funds has come to an end*

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<sup>3</sup> Banks' own ratings, according to HFSA report.



\* Source: Bamosz, 30 April 2004

### 3.4.3 The Exchange

Year 2003 brought about spectacular results both in terms of turnover and prices: the BUX increased by 18.5 % in 2003, closing the year at 9380 points while, the turnover on the stock market of the Budapest Stock Exchange approximated an annual figure of HUF 1,900 billion by the end of 2003, some 22 % in excess of the amount recorded in the whole of 2002. In addition to the turnover, the stock traded also increased due partially to an increase in prices and partially to a re-launch in the listings.

*Successful 2003*

Out of the two cash market sections of the BSE, the equities section continues to provide the decisive portion of the turnover (having increased from 82.3 % at end-2002 to 83.3 % by the end of 2003). In terms of market capitalisation, the situation was much more balanced owing to the large stock of government securities which accounted for over 60 % of total stock exchange market capitalisation. The most dynamic growth was recorded in the sector of mortgage bonds, their turnover increased to five times the figure recorded in 2002 (to HUF 102 billion) while their market stock grew to 2.35 times that of the preceding year's. No change took place in the stock market in respect of market concentration in 2003, the five most liquid papers accounted for a weight similar to that of the preceding year (93.3%).

*The stock section continues to dominate*

Substantial changes took place besides the cash market in the market of derivatives as well, where the currency market caught up to the index-based and individual equity based futures instruments that were so successful in previous years. Cross currency contracts appeared as well in this area, resulting a dramatic growth of liquidity.

In the first five months of 2004 the turnover of the cash market increased in market value by 70 %, that of the derivatives market was 73 % higher

*Positive developments in 2004*

than in the corresponding period of 2003 within which the turnover of the stock section grew by even higher rates - by 77 and 112 %, respectively. Through minor fluctuations the BUX grew steadily - by the end of May it was 20 % higher - and its historical high was reached on 13 April, at 11761 points.

Certain processes aiming the integration of the two domestic exchanges have appeared, in which the change of the ownership structure of the exchanges was an important milestone: through intermediation by HVB, Austrian financial institutions acquired majority ownership in the BSE as well as in the BCE, whereby they also acquired a participation in KELER. At the press conference following the transaction the new owners declared that they support the ongoing integration of the BSE and the BCE, but they do not support that of KELER and the BSE. They promised to disclose their strategy at a later stage.

*Ownership changes,  
integration efforts*

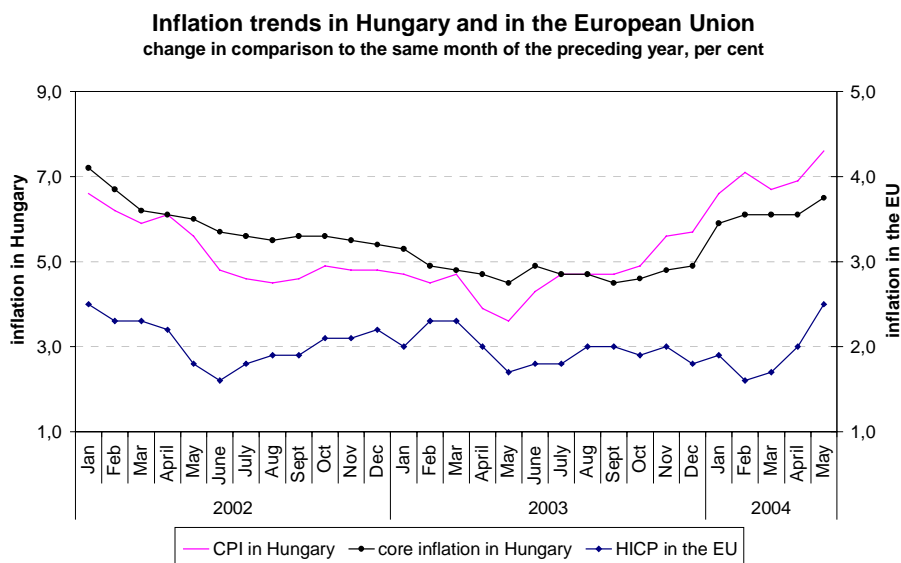
#### 4. Inflation

According to information published by the Central Statistics Office, during the first five months of 2004 inflation developed as had been expected, prices were 7.6 % higher in May than in the corresponding month of 2003. The price level increased by 0.9 % over a month. This latter figure is somewhat higher than projected owing to the oil price rise and the rapid increase of the prices of certain seasonal foods.

*The trend of inflation  
was in line with the  
expectations*

According to the estimate by the CSO somewhat more than a third of the 5.2 % price increase in the first five months of 2004 resulted from changes to the VAT and excise taxes. This means at the same time that the remaining part of the price increase was lower than the figure registered in the corresponding period of 2003. In the case of tobacco products the change of the excise tax was still perceptible in the price index in April and May as well. The price level was also driven higher in the month of May by the growth of the prices of fuels.

*The fundamental  
processes do not drive  
inflation*



*The difference between  
core inflation and CPI  
shows strong effect of  
seasonal factors  
influencing prices*

As a result of the statistical impact of the acceleration of inflation in the second half of 2003 and the one-off price increasing steps taken at the beginning of the year, inflation was at 7.0 % as an average of the first five months in comparison to the corresponding period of the previous year. The 12 month index is expected to be still high in June for similar reasons but in the second half of the year some deceleration is expected. The annualised price increase in December may decline to below 6 % and the annual average inflation rate is expected to end up at about 6.5 %.

*The consumer price index will increase in 2004 on a temporary basis*

On the whole, food prices - owing to the favourable agricultural perspectives and to supply in the market - continue to be moderate. International oil prices may be higher than expected but may develop in a balanced way, from the autumn they may decline somewhat. The effects of oil prices on the price level will diminish in the future.

A review of the categories of the consumer basket according to COICOP will lead to the following main conclusions: The prices of *Food and non-alcoholic beverages* increased during the first five months by a total of 5.9 % (in comparison to May 2003 by 6.5 %). The highest rates of increases have been registered this year in the prices of sugar, flour, potatoes and fresh fruits. The price level of dairy products declined and processed food products diminished. No major price increase is expected as a result of the agricultural outlooks and the supply side in the market, while in some categories of products prices should go down. The average price increase in 2004 May, on the whole, be of an average rate eventually. The increase of the prices of *Alcoholic beverages and tobacco products* results - besides the producer price increase - from the growth of the excise taxes. In a five month period the prices of alcoholic beverages increased by 7.3 % (or by 7.4 % over a 12 month period). In the case of cigarettes, in order to maintain turnover the producers buffered the impact of the tax increase as a consequence of which the prices of these products increased by 12.4 % in the first five months (and by 21.9 % in comparison to the prices in May 2003).

*The prices of processed food products have been developing moderately, in the case of seasonal products the second half may lead to an increasingly balanced situation*

*Clothing and footwear* is a typically seasonal product group. The price reduction at the beginning of the year was followed by a price increase upon the introduction to the market of the spring supply. Services relating to clothing increased at a rate in excess of the average.

Disinflation was most significant in the case of industrial products. The average price level of durable consumer goods was equal in May to the level registered one year before. Competition in the market is most intensive in this product group, therefore, prices are expected to go downwards in 2004 again as they did in 2003. The development of the prices of motor vehicles is influenced primarily by the changes to the taxation rules. The prices of used motor vehicles were lower in May than a year before.

*Low inflation of prices of industrial products*

Prices in the group of Housing and services grew faster in the first five months - partly as a result of the increasing of the preferential VAT rate, the change of the VAT category of power as well as the environmental

*The fees payable for services relating to housing increase faster,*

load charge - by an average of 7.8 % in comparison to the prices observed in December. The prices of services in the category of Furnishings and household equipment increased by an average rate, which was accompanied by occasional price decreases in the case of general manufactured articles and durable consumer products as a combined result of which the price level was only 1 % higher than one year before.

*the prices of products grow slower*

The prices of market services increased steadily faster than the average rate. The difference between the rates of the growth of the prices of services and those of industrial articles seems stable though it is expected to diminish somewhat over time.

*Prices of services increase faster than average*

In the area of *Health care* pharmaceutical products are the dominant factor. In January 2004 the price level increased by 16.1 % in a single month while in April it dropped by 12.6 % as a consequence of which in May it was 1.4 % up on the level measured in December and 4.1 % higher than the level recorded a year before. The development of prices is driven by the changes to the pricing regulations.

*The development of pharmaceutical prices depends on the regulatory environment*

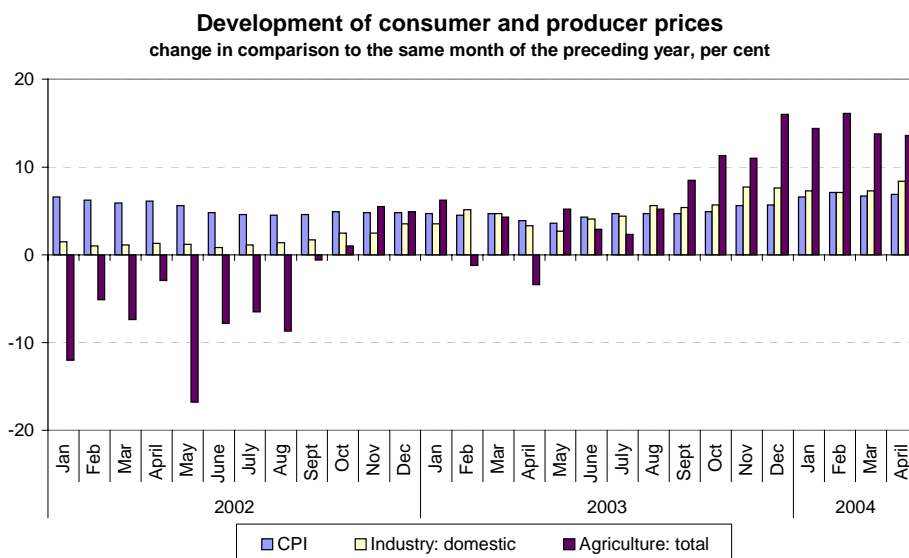
In the *Transport* category the modest growth of the prices of motor vehicles and components, the growth of the prices relating to operation and maintenance and the local and long distance transport charges and the rather volatile development of fuel prices have been the dominant features. This latter increased in May by 3.7 % as a result of which the price level is 7.0 % and 11.0 % up on the level measured in December and May 2003, respectively. The annual average price increase depends on the development of oil prices which in turn depend on international factors. Fuel prices should decline somewhat in the second half of 2004.

In the case of *Telecommunication* the level of prices relating to telephone use are below the level registered in May last year, owing to the intensive competition. Postal services which make up a small share of the sector increased substantially. In the area of *Recreation and culture* besides the increase of the prices of repair type services the prices of equipment and instruments available for purchase declined and the prices of books, periodicals and papers developed in a balanced way. In the case of books the prices were also influenced by the reduction of the VAT rate. Prices of recreational and cultural services increased. The 3.2 % growth of prices in a five month period (4.9 % over a 12 month period) is, on the whole, below the average, and this trend is expected to continue during the remaining part of the year. The price level of *Education* increased by only 0.8 % this year but it increased by a total of 14.9 % over the prices in May 2003.

*Price moderating competition is observed in the telecommunication market, the cutting of the VAT rate moderated book prices*

The price level of the group of *Restaurants and hotels* increased at a rate in excess of the average. Their development - s in the case of the majority of services offered in the market - will be influenced by wage costs and purchasing power together which is indicative of a likely deceleration of the price increase. From among *Miscellaneous goods and services* apart from hairdressers' and body care services, the outstanding price increases related to insurance and financial services should be mentioned.

The development of prices in the productive sector was characterised by substantial differences.



*Characteristic fluctuation of agricultural producer prices*

As an average of the first four months of 2004 *agricultural producer prices* were 13.5 % higher than the prices registered in the corresponding period of 2003. The prices of crop products increased by an average of 29.5 % during the first four months. The prices of cereals and potatoes increased substantially. The growth of prices in the livestock and animal products was more balanced, the average price level of the first four months was 3.4 % below the price registered in the corresponding period of 2003. The prices of crop products are expected to grow more balanced in the second half of the year.

*Producer prices in crop production started to increase sharply in the second half of the year 2003 but the situation may grow more consolidated by the middle of 2004*

Domestic *industrial producer prices* were, both in April 2004 and as the average of the first four months of this year, 4.4 % up on the corresponding figures of the preceding year. Substantial growth has been registered primarily in the energy production branches. The price index of the branches turning out durable consumer goods was low. The price growth of the branches producing intermediates accelerated along with that of the branches producing non-durable consumer goods. In this latter category the trend was influenced partly by the links to agricultural producer prices. In the case of the branches turning out investment goods the increase of prices accelerated primarily in relation to factors associated with economic growth. In view of the international price trends and the projections concerning the growth of the economy of Hungary a higher price increase is expected for this year as a whole than was recorded in 2003. The price index of *export sale prices in terms of HUF* increased from the middle of 2003 and then it declined from January 2004, ending up at 1.3 % in April.

*Domestic industrial producer prices increased at an accelerating rate primarily in line with the development of energy prices*

In *construction the cost based price index* has been steadily declining since December 2003, partly as a result of statistical relationships, accordingly, the index shows a 4.9 % and a 5.6 % price increase for



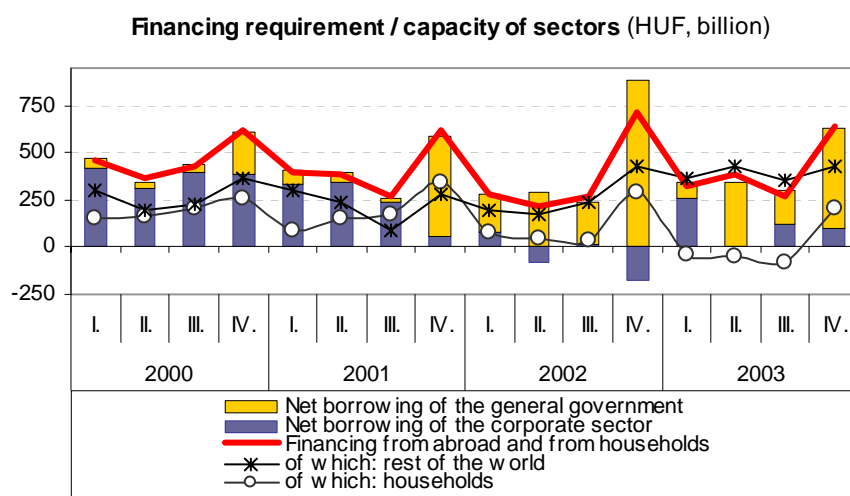
March and as an average of the first three months, respectively, in comparison to the corresponding period of the previous year.

## 5. Income, financial processes, equilibrium

### 5.1 Equilibrium

According to the figures drawn from financial accounts in 2003 the external financing requirement of the national economy increased by almost HUF 550 billion in comparison to the preceding year's figure, to HUF 1,580 billion (or 8.5 % of GDP). The fourth quarter data confirmed the earlier expectations. Household savings increased, in the last quarter households turned to be net savers again. This however, could offset the negative value of the net financing position in the first three quarters only to a relatively minor degree therefore the net savings of households during the whole of the year (about 0.2 % of GDP) dropped to about a tenth of the preceding year's figure. In line with the recovery of the economy corporate sector was in net borrower position in 2003 again (financial and non-financial enterprises together: approx -2.6 % of GDP). The growing external financing requirement of the national economy related to the increasing corporate borrowing, along with the low levels of household savings and the general government deficit which, though substantially smaller than in 2002, was still rather substantial.

*Low household savings, growing corporate borrowing and increasing external financing in 2003*



Only partial information is available on this year's processes for the time being: the financial accounts on the first quarter will be disclosed only on July. According to preliminary partial information although the growth of the credit portfolio of households has decelerated yet the growth of the deposit portfolio decelerated even more dramatically, therefore the net position of households as against the domestic banking system deteriorated by more than HUF 50 billion. The changes of the securities portfolios and of the stock of currency outside the banking system are equally indicative of the fact that households turned to be in a net borrowing position again in the first quarter of 2004. Corporates maintained their net borrowing position along with the upswing of investment. The development within the year of the general government

*According to partial information the financing requirement of the economy was covered exclusively from abroad during the first quarter*

deficit is not without fluctuations: in the first quarter almost 37 % of the annual deficit target was reached, consequently the net financing requirement of the general government was relatively high in the first quarter. As a result of the lack of domestic savings the borrowing requirement of the economy was covered by growing external financing. On the basis of the current account and the capital account the external financing requirement must have been some HUF 470 billion during the first quarter, some HUF 40 billion more than in the last quarter of 2003 and by some HUF 100 billion more than in the corresponding period of 2003.

In the whole of the year though no turnaround is expected in the saving propensity of the households, they are still expected to end up as net savers in 2004 again, indeed, their savings may even increase somewhat over the preceding year's figure. The growth of the general government deficit is expected to decelerate in the second half of 2004. The deficit declining over the whole of the year by more than 1 percentage points relative to GDP may promote the growth of borrowing of corporate sector even along with an improving external equilibrium. In the second half of the year EU transfers should also improve the indicator of the external equilibrium, through the capital account. The external financing requirement of the economy may decline more vigorously relative to GDP than the current account, by about a percentage point.

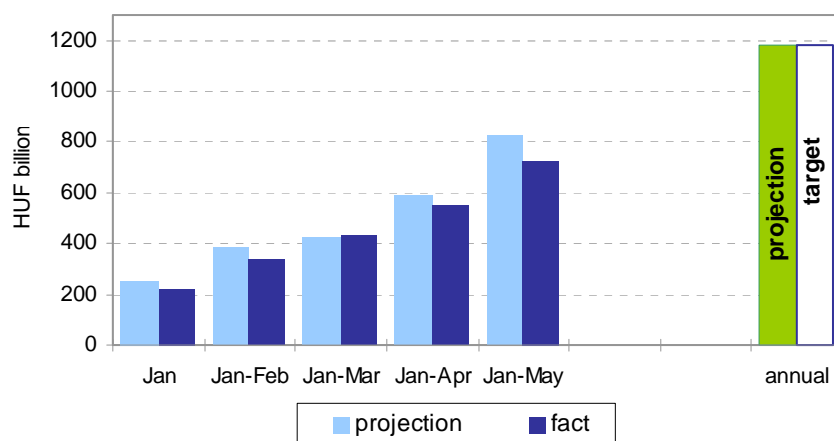
*The external financing may diminish in 2004*

## 5.2 General government

The **general government** deficit (according to cash based accounts and without local governments) equalled in essence the current projection - monthly reviewed - at the end of the first quarter. Thereafter, the balance was better than projected both in April and in May. The deficit was much smaller than expected primarily in May, consequently the total deficit in the first five months equalled HUF 722.4 billion instead of the projected HUF 830.8 billion. The balance of the social security funds and the extra budgetary funds (HUF 236.2 billion deficit and HUF 22.6 billion surplus, respectively) is in line with the expectations, the improved position is explained by the lower deficit of the central budget (HUF 508.8 billion).

*Deficit in May was below expectation*

General government deficit in 2004



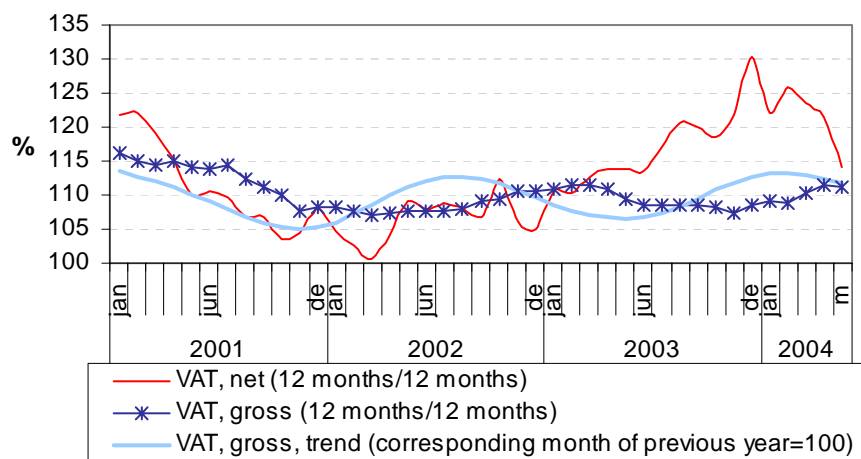
The development of the balance was also influenced in the month of May by one-off factors. The payment of the 53<sup>rd</sup> week pensions increased the expenditure by some HUF 37 billion. Other projected one-off payments were, however, postponed (assumption of the debt of Rendezvénycsarnok Rt., subsidising of media public foundations). This latter improved the balance by some HUF 35 billion.

*One-off effects also influenced the balance*

A much more substantial contribution was made, however, to the smaller than expected deficit, by the favourable development of revenues. An amount almost HUF 50 billion more than had been expected was received from value added tax, both the receipts on imports and the domestic VAT payments exceeded the expectations. The change in comparison to the preceding year of the VAT revenues were influenced by a variety of factors of both directions in the first five months. The slow-down of the growth of consumption expenditure of households disadvanced but the change of the VAT rates and the growth of imports increased VAT revenues. In the data on May the impact of Hungary's EU accession was smaller (the treatment of VAT on imports from Member States will become similar to VAT on domestic sales and will appear in cash flows only at a delay) than could be calculated. The changes in 2003 of the refunding regime played a role in the level of the net VAT revenues appearing in the budget - though higher than expected - fell short of the amount registered in the first five months of 2003. The growth rate of gross VAT revenues (13.4%) was, despite the decline after accession, still twice as high as the rate (6.6%) recorded in January to May 2003. Both the 12 month indices and the ratio of the trend change show higher rates (over 11%) than in the previous year. In the next months however as a result of the change of the accounting treatment of the EU imports the growth of the gross VAT revenues will probably slow down.

*The VAT revenues in May exceeded the preliminary estimate by almost HUF 50 billion*

Development of VAT revenues



On the whole the revenues of the general government (without local governments) were higher, its expenditure was lower than expected. Nevertheless, a total of 38.6 % of the cash flow revenues relating to the ESA deficit target equalling 4.6 % of GDP was received and 41.4 % of the expenditures was spent by the end of May.

The possibility of accomplishing the annual deficit target is not contradicted by the difference between the rates of the realisation of the revenues and expenditures or by the fact that the HUF 722,4 billion deficit accumulated between January and May equals 61 % of the annual projection. The forecast was based on the assumption that the development of the rates will not be an even process during the year, i.e. that the deficit will grow faster in the first half and slower in the second. In accordance with the regular seasonal patterns the revenues will accelerate and in the second half the tax refunds following the period of the filing of tax returns will not deteriorate the balance. On the expenditure side the effects of the payments due at the beginning of the year and in the second quarter (e.g. 13<sup>th</sup> month wages, the instalment of the price of the Grippen aircraft, the advancement in time of the payment of the 53<sup>rd</sup> week pension, the high contractual interest costs in the second quarter etc.) will no longer influence the development of processes. Furthermore, the freezing measures adopted by the Government and the reduction of the base rate of the central bank will also have a major positive impact on the balance in the second half of the year.

Accordingly in view of the data on the first five months the annual projection of the general government deficit may be maintained, with the deficit expected to total 5.8 % of GDP in a cash-based approach, or 4.6 % according to the ESA95 standard.

On 31st December 2003 the gross public debt amounted to 57 % of GDP on cash basis (59.1 % on accrual basis). 24 % of the total debt was denominated in FX, 76 % was denominated in HUF. By the end of 2004 the gross public debt is expected to increase by 0.3-0.5 percentage points and the share of the FX denominated debt will increase - in

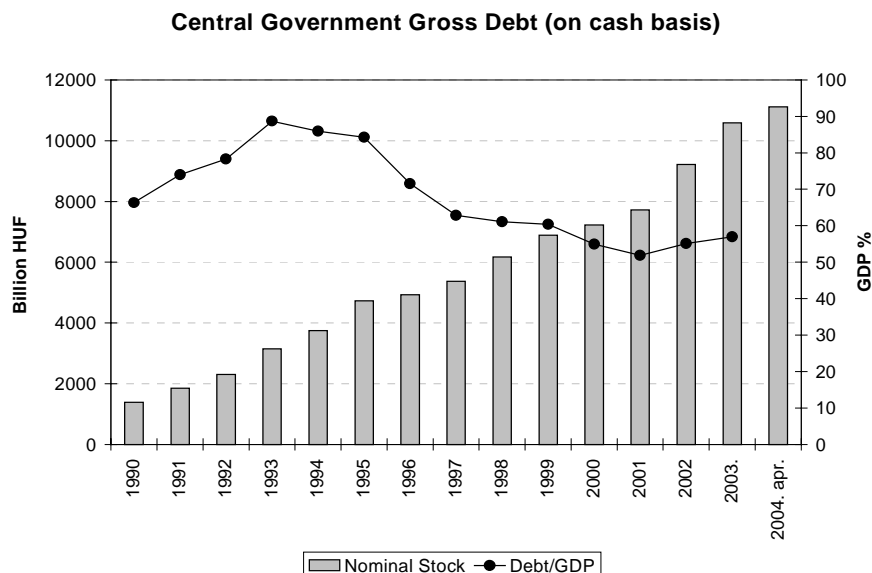
*So far a larger part of the expenditures has been spent than the share of the revenues realised*

*... but the forecasts were based on the assumption of an uneven pattern of revenues and expenditures*

*The deficit target is achievable*

*Slightly growing debt ratio in 2004*

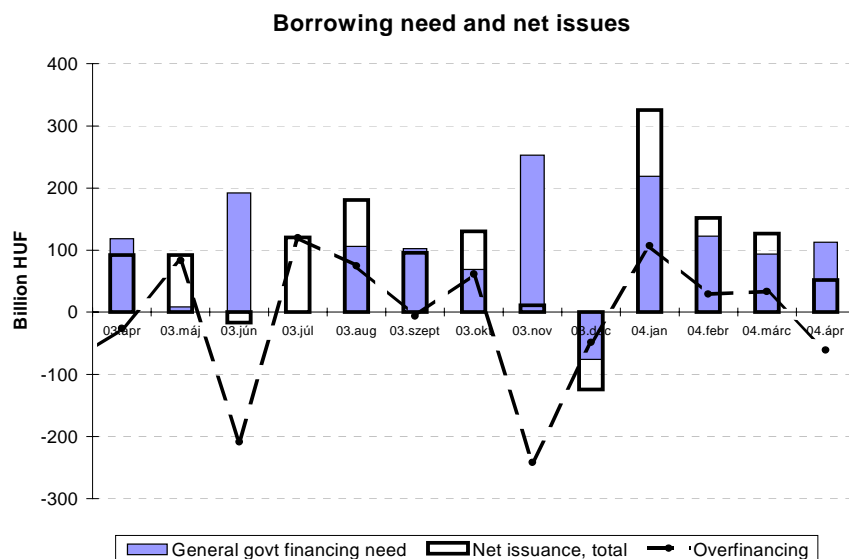
contrast to the trend observed in recent years - to about 27 % of the total public debt. In 2004 due to HUF financing under unfavourable conditions a positive net FX issuance will take place, deviating temporary from the debt management strategy.



In order to improve the structure of the HUF denominated debt, the lengthening of the duration is continued along with the increasing of the proportion of marketable government bonds with fixed interest rate. This is also indicated by the fact that in accordance with the practices applied during recent years the Government Debt Management Agency issues only bonds with fixed interest rate in the HUF market and makes efforts to increase the proportion of government bonds at the expense of discount treasury bills. As a result the ratio of HUF bonds with fixed interest rate will increase from the 63 % at the end of 2003 to 67.8 % by the end of December 2004, within the total government security portfolio.

During the period since the latest flash report the financing conditions of the public debt have improved. A variety of favourable macro economic news have been brought out (GDP, industry output, export dynamic, budget, inflation) showing that the economy of Hungary has been set on an export and investment driven growth path. The less favourable than expected balance of payments deficit data have, however, shown that the external economic equilibrium is still fragile. By early May both yields and premiums declined but at that point decline was replaced by growth. As an average of the recent period there was a moderate demand at discount treasury bill and government bond auctions. The auctions of liquidity discount treasury bills, however, were characterised by weak demand during the whole of the period.

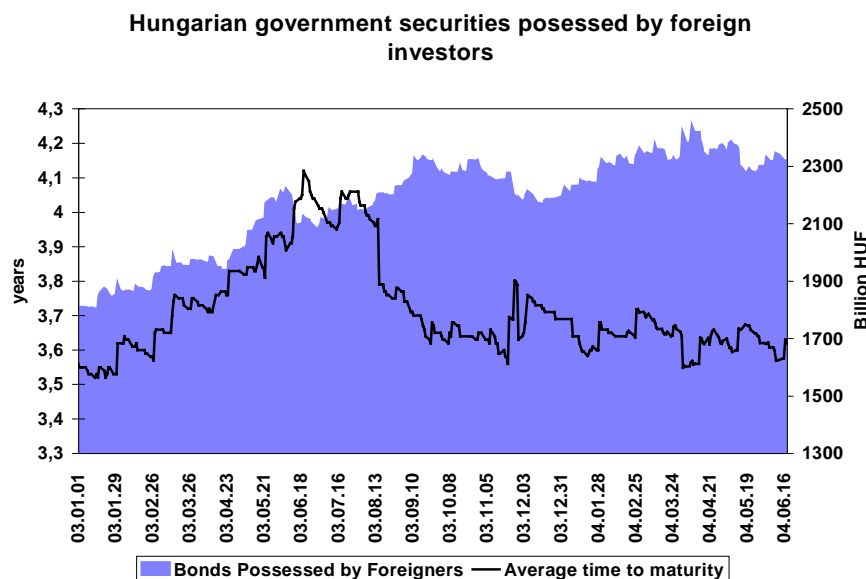
*Improving funding conditions in the second quarter of 2004*



On 26 April 10 year bonds with fixed interest rate (5.5 % coupon) of an amount of GBP 500 million, on 9 June five year bonds with fixed interest rate (1.09 % coupon) of Y 50 billion were issued. The goal of the issues was - besides the implementation of the second EUR 1 billion part of the foreign exchange issue planned for 2004 - to expand the range of investors.

The demand of non-residents for HUF denominated government securities has been fluctuating since the latest flash report. At the beginning of the period the demand of non-residents for government securities was not particularly high and their HUF denominated portfolio more or less stagnated. This was followed by an increase of the HUF denominated government security portfolio of foreigners, while in May it dropped substantially, therefore, during the whole of the period under review the portfolio denominated in HUF dropped by a total of HUF 17 billion with the average term to maturity unchanged. The diminishing share of foreigners in HUF financing was, however, offset by their participation in FX issuance in excess of the maturing foreign exchange debt as a result of which their 46.4 % share in the financing of the Hungarian state debt at the end of the first quarter increased to 46.8 % by the end of May.

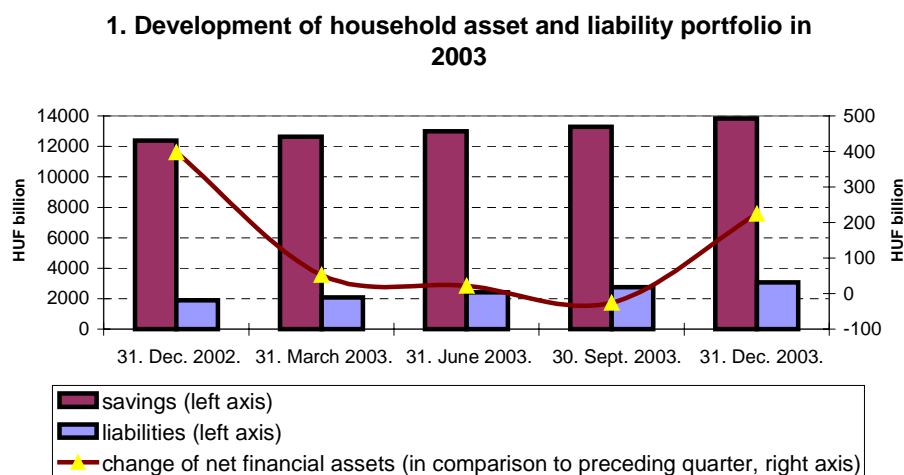
*Foreigners' HUF government security portfolio dropped but their share in the financing of the public debt increased*



### 5.3 Household financial savings

The gross savings portfolio of households increased by HUF 1,451.1 billion, their gross debt portfolio grew by HUF 1,177.4 billion in 2003 as a whole (see figure 1). Accordingly, the net financial wealth of households increased in 2003 by a total of HUF 273.7 billion. Much of the increment - HUF 231.7 billion) originates from the change of the exchange rates of the assets and liabilities of households, while the transactional net financial asset change which is of relevance from the aspect of the funding of the national economy, amounted to HUF 42 billion.

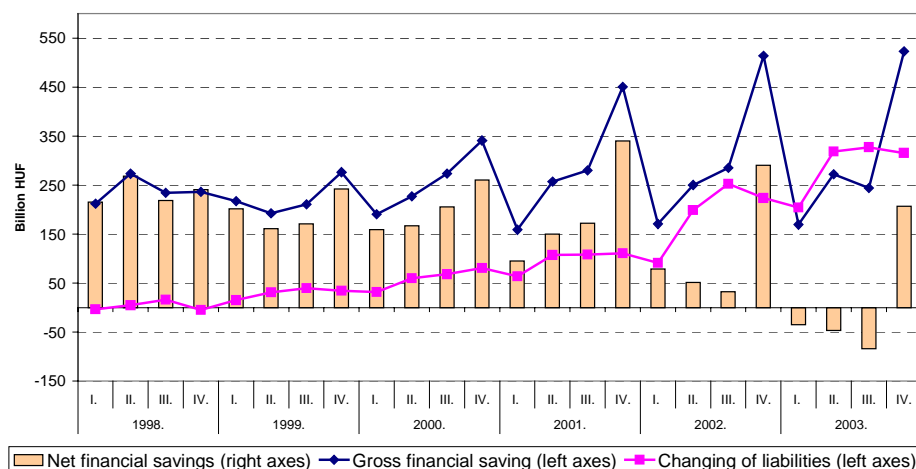
*The total net assets of households increased in 2003 by HUF 273.7 billion*



After its negative financing position in the first three quarters of 2003 the household sector turned into a net saver again in the fourth quarter of the year. Its net financing position was HUF 207 billion in the quarter (see figure 2), accordingly, in the whole of year 2003 the sector had a HUF 42 billion financing capacity (equalling 0.2 % of GDP).

*In the 4<sup>th</sup> quarter of 2003 households turned into net savers again*

## 2. Development of the financial position of households from 1998 (new methodology, transactions)



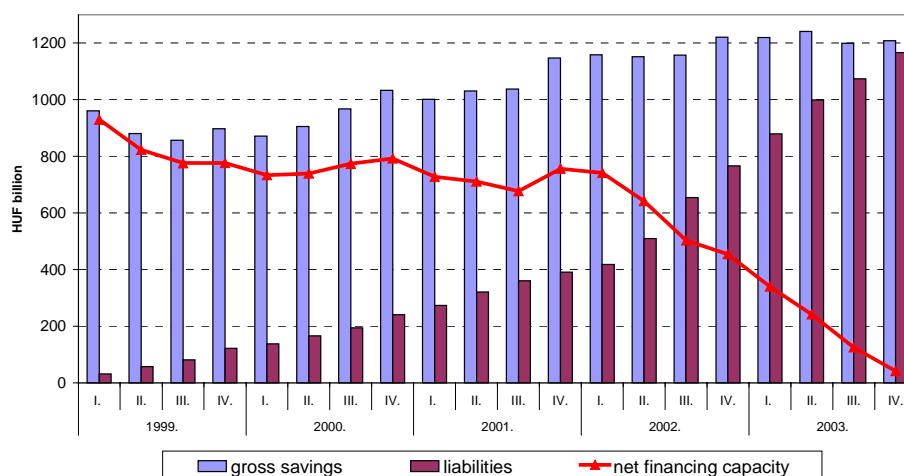
The more favourable figure on the last quarter is explained by a HUF 523 billion increase of the gross savings of households which is a result of the substantial growth of the incomes of the sector. The income increase was caused partly by seasonal effects (payment of premiums at the end of the year) and by one-off items (53<sup>rd</sup> week pension, the payment of the child care aid supplement on the basis of the Supreme Court decision).

*The incomes of the sector increased significantly in the fourth quarter of 2003*

A substantial expansion was observed on the borrowing side as well, though of a smaller rate than that of gross savings. The household borrowing portfolio increased by HUF 316 billion during the period of which the increment of housing loans amounted to HUF 184 billion which was accompanied by a substantial growth of consumer loans and other credits (primarily leasing liabilities), equalling HUF 132 billion..

*The dynamic of the growth of liabilities was also high*

## 3. Development of the net financial position of households (12 month accumulated figures)



The steady decline of the net financing capacity of households in a relatively short (two year) period did not stop despite the positive 4<sup>th</sup>



quarter figure either. This is clearly shown by the fact that the current 12 month value of the financing capacity of the sector is HUF 42 billion, about a third of the amount of the preceding quarter and a tenth of the corresponding period in 2002 (Figure 3).

The change in the last quarter of 2003 of the composition of the assets held was also influenced primarily by the high level of interest rates applied by the central bank. The HUF deposit portfolio of households increased by almost HUF 400 billion during the period while their share and investment note portfolio dropped by HUF 90 billion. As a result of the steadily higher interest rate government securities became attractive again, the portfolio of government bonds and treasury bills held by households increased by HUF 100 billion.

In the first quarter of 2004 the value of the government security portfolio held by households, in continuation of the trend of the preceding quarter, increased by HUF 124 billion, as a result of the charge of the sector in the government securities market increased by 0.9 percentage point, to almost 14 %. By contrast, the sale of shares by households exceeded their share purchases by HUF 18.9 billion but as a result of the HUF 29.7 billion price gain during the period the value of the share portfolio of the sector increased on the whole by HUF 10.8 billion. Despite this increment - as a result of the rapid growth of prices on the exchange, only a mere 4.3 % of the exchange traded shares was held by households at the end of March, 0.5 percentage point below the share at the end of 2003. The portfolio of investment notes held by the sector dropped by HUF 105.9 billion during the quarter, consequently the share of households of this type of financial assets dropped by 4 percentage points to 70.7 %.

According to preliminary data<sup>4</sup> household borrowing dropped substantially in the first quarter of 2004, resulting primarily from the tightening of the conditions on the state subsidy for housing loans, in December 2003. At the same time a growth of - primarily foreign exchange based - borrowing under commercial terms commenced in the area of household borrowing but the share of such loans is still rather small both in terms of the new housing loans and the entire real estate borrowing portfolio.

*The tightening of the conditions of state subsidies on housing loans has made its effect: according to preliminary data household borrowing dropped substantially in the first quarter of 2004*

The declining borrowing of the sector together with the impacts of the high exchange prices promoting growth of savings and the effects of decelerating consumption caused by the strengthening of a more cautious approach resulting from less favourable outlooks, along with one-off items such as the payment in May of HUF 35 billion on the 53<sup>rd</sup> week pension, should result in the net saving position of household growing this year to an expected 0.4-0.5 % of GDP, i.e. the household sector may play a larger role than last year in the financing of the borrowing needs of the rest of the sectors of the national economy.

*The net financing position of households may increase to about 0.4-0.5 % of GDP*

<sup>4</sup> Actual data on the net financing position of households in the first quarter will be available from 1 July 2004.

## 5.4 Corporate sector

Only partial information is available concerning corporate financing in the first quarter of 2004\*. According to monetary, balance of payment and securities statistics some HUF 270 billion is estimated to have been borrowed by businesses through the following key channels.

*Corporate funding requirements continued to grow in the first quarter of 2004*

The portfolio of **bank loans** increased *in 12 months* (between April 2003 and March 2004) by 22 %, the net portfolio grew by 33 %. *In the course of the first quarter of 2004* the domestic banking sector extended HUF 230 billion net credit to the corporate sector. Only non-financial enterprises increased their net credit portfolio, the net borrowing from banks by other financial enterprises declined.

The necessary funds were secured by businesses in about equal proportions by taking out bank loans and withdrawing their deposits. Non-financial enterprises took out some HUF 170 billion deposits to finance their expanding operations.

The placement of HUF instruments gained ground in bank financing again. The net foreign exchange credits extended to the corporate sector dropped in the first quarter of 2004 by HUF 22 billion in contrast to the HUF 240 billion growth in the fourth quarter of 2003. Along with the significant drop of foreign exchange lending the growth of savings in foreign exchange deposits also contribute to the slight drop of the net foreign exchange loan portfolio.

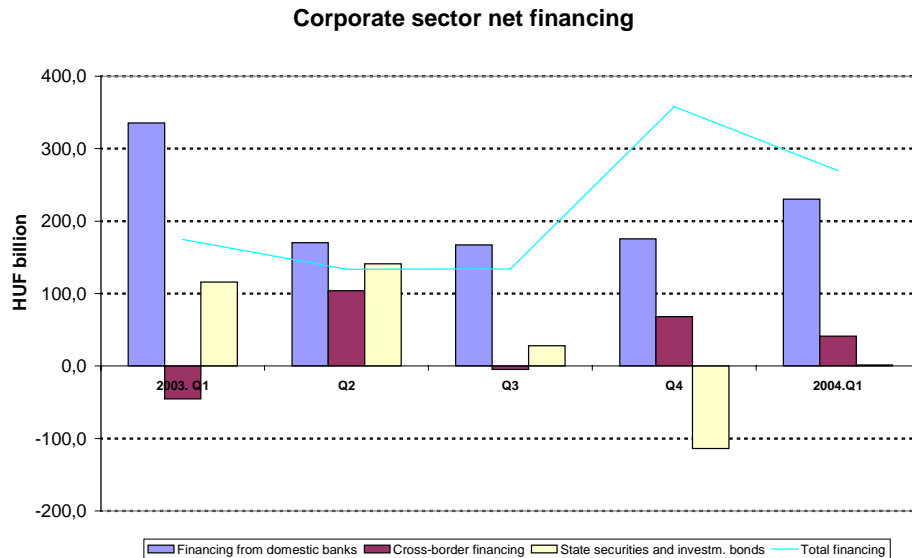
Together with the growth of the activity of businesses the growth of savings of businesses in **securities** practically came to a halt. The government security and the investment note portfolio increased by a mere HUF 1.6 billion - along with continued decline of the government security portfolio - in the first quarter of 2004, after a HUF 110 billion drop in the preceding quarter.

In the first quarter businesses **borrowed from abroad** funds equalling some HUF 41 billion. Within the HUF 194 billion worth of influx of foreign direct investment - equalling about twice the amount recorded in the first quarter of 2003 - direct investment continues to be a dominant element, which increased by HUF 127 billion. Debt creating financing continued to decline through all channels (-HUF 152 billion). The portfolio of net foreign borrowing declined by HUF 80 billion and businesses repaid HUF 64 billion in shareholders' loans.

*Debt type financing of businesses from abroad continued to decline*

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\* The 1<sup>st</sup> quarter financial accounts including the complete borrowing requirements will be available only later.



The corporate sector needs to draw on a substantial external funding during the remaining part of the year to finance its dynamically expanding investments. In addition to the expected growth of influx of foreign direct investment HUF financing will become more favourable owing to the strengthening of the HUF and the reduction of the interest level.

## 5.5 External equilibrium

**The current account deficit** amounted in April to EUR 1,070 million, by some EUR 300 million more than a year before. The month's deterioration is a result primarily of the deterioration of the foreign trade balance. This is caused by the second month of outstanding growth of imports. For businesses (primarily those in duty free zones) effected substantial duty free import advance purchases (or purchases under preferential tariff rates) prior to EU accession both in March and in April. One favourable sign is, however, that the monthly deterioration of services seems to have stopped in April.

In the first four months **a total of EUR 2,826 million net expenditure surplus was recorded, EUR 562 million more than in the corresponding period of 2003.** Some 40 % of the deterioration of the current balance resulted from the unfavourable performance of services this year and some 30 % results from the deterioration of the foreign trade balance for the high imports of the last two months turned the more favourable position in comparison to the basis into deterioration.

Besides the dynamic (14%) growth of exports the transitional outstanding growth of imports during the past two months lead to an almost EUR 1.2 billion **foreign trade deficit**, which was by 163 million more than a year ago. Along with the decline of the dynamic of consumption the corrective effects of the advanced imports are expected to materialise during the next months which should also reduce the growth rate of imports in relative terms. In this way foreign trade

*Outstanding imports in April increased current account deficit*

*Owing to real economy the external equilibrium deteriorated in the first four months*

*Deficit was increased primarily owing to advanced imports*

processes may improve not only structurally but also from the aspect of the external equilibrium.

The unfavourable performance of **services** in the first quarter could not be offset by the performance in April but the continued deterioration has been stopped. Accordingly, the net deficit of services amounted to EUR 400 million, by EUR 246 million more than last year. Along with an almost 6 % growth of export revenues import expenditures increased by 16 %. Within this, the surplus of tourism was EUR 126 million, half of last year's figure, but the deterioration seems to come to an end here too. The dynamic of the decline of exports slowed down and the growth rate of imports also declined. Although the deficit of other services increased by EUR 120 million to EUR 535 million, export accelerated by the end of April so much (14 %) that despite the growth of the dynamic of imports the gap between exports and imports shrank to -3.6 %.

*The deteriorating trend of services seems to come to a halt*

The **net income outflow** amounted to EUR 1.42 billion at the end of April, 120 million more than a year ago. Some 76 % of the net outflow is income flow relating to net income of non debt creating financing (profit transfer and reinvested earnings) equalling last year's figure more or less. Almost 60 % of the position deterioration of the net income outflows relates to the increase of net incomes for debt creating, i.e. net interest expenditures. This is not surprising in view of the increased debt portfolio and the relatively high ratio of the debt denominated in HUF, owing to the high HUF rates.

*Share of debt creating transfers increasing within incomes*

The active balance of **unrequited transfers** amounted at end-April to EUR 186 million, EUR 33 million below the figure recorded at the end of April last year.

The influx of foreign direct investment has continued to grow. In contrast to the decline last year, in April a total of EUR 180 million net influx of foreign direct investment was recorded, thus the **non-debt creating net capital** influx in the first four months amounted to EUR 1,042 million in contrast to the EUR 453 million last year. The EUR 589 million increment was a result of the influx of EUR 300 more - EUR 930 million - influx of foreign direct investment into Hungary (of which 500 million reinvested income) and the EUR 342 million of portfolio investment was also EUR 130 million up on the prior year's figure. The lower level of placements abroad by residents (EUR 237 million) also had a positive effect. Thus at the end of April the financing part of the current balance deficit which is EUR 560 more than last year was 37 %, or 20 % more than in the basis period.

*Non debt creating net capital influx increased in the first four months by 130 %*

Considering that part of the growth of the current deficit in March and April is imputed to a one-off, temporary impact (advanced imports prior to EU accession) which may be offset during the year, the projection on the current account deficit needs not be revised. The current account deficit is estimated to come to 8.5 % of GDP, the financing requirement will be lower for through the capital balance the EU transfers will also finance some of the current deficit.

*Year 2004 current account deficit estimate attainable*

# **T A B L E S**

Table 1.

**ECONOMIC INDICATORS**  
Real Sector, Prices, Competitiveness

change from the same period of the previous year, %

	2000	2001	2002	2003								2004				
	I-IV. quarter	I-IV. quarter	I-IV. quarter	1. month	1 - 2 month	I. quarter	1 - 4 month	1 - 5 month	I. half of year	I-III. quarter	I-IV. quarter	1. month	1 - 2 month	I. quarter	1 - 4 month	1 - 5 month
GDP volume 15/	5.2	3.8	3.5	-	-	2.7	-	-	2.6	2.7	2.9	-	-	4.2	-	-
Household consumption	4.8	5.9	9.3	-	-	7.2	-	-	7.1	7.3	6.5	-	-	3.0	-	-
Gross fixed capital formation	7.7	5.0	8.0	-	-	-1.6	-	-	0.5	1.9	3.0	-	-	18.9	-	-
Exports of goods and services	21.0	7.8	3.7	-	-	2.6	-	-	1.8	3.9	7.2	-	-	17.4	-	-
Imports of goods and services	19.4	5.1	6.2	-	-	4.5	-	-	6.3	9.2	10.3	-	-	16.6	-	-
Volume of retail trade turnover 14/	2.0	5.4	10.7	12.5	10.4	9.1	10.1	8.9	8.2	8.5	8.5	5.6	4.8	4.9	-	-
Volume index of investments	6.5	3.5	5.8	-	-	-1.2	-	-	0.5	2.1	3.1	-	-	18.9	-	-
Foreign trade turnover 1/: export volume	21.7	7.8	6,8 /12	6.6	2.1	2.8	2.2	1.9	2.0	5.7	9.1	19.8	20.2	19.6	18.6	-
import volume	20.8	4.0	6,1 /12	2.1	2.3	4.2	5.3	5.9	6.5	9.0	10.1	12.1	13.5	16.7	17.2	-
				-	-	-	-	-	-	-	-	-	-	-	-	-
Volume of industrial production	18.2	3.6	2.8	6.0	2.5	4.1	3.6	3.8	4.1	5.0	6.4	7.2	9.8	10.8	10,4*	-
Volume of construction-installation activities	7.6	8.3	17.8	3.6	-10.5	-17.3	-13.0	-7.9	-3.9	-1.8	0.7	11.4	16.6	19.5	-	-
Number of employees (in thousands)																
household survey (annual average)	3849.1	3859.5	3870.7	3862.4	3847.5	3859.6	3872.8	3878.5	3891.7	3911.9	3921.9	3884.1	3890.1	3891.5	3889.1	-
labour statistics 2/	2718.1	2720.8	2726.1	2711.1	2718.6	2721.2	2726.8	2732.4	2737.4	2746.2	2752.8	2760.9	2762.3	2766.1	-	-
Vacancies (in thousands) 3/	39.2	37.3	34.0	31.9	37.7	42.7	47.7	50.8	50.8	52.7	44.0	38.2	51.3	56.3	-	-
Number of unemployed (in thousands) 3/	372.0	342.8	344.9	374.3	388.3	386.2	368.6	351.0	336.2	344.7	359.9	388.0	401.7	396.9	-	-
Rate of unemployment (household survey, %)	6.4	5.7	5.8	6.6	6.5	6.4	6.3	6.2	6.1	6.0	5.9	6.3	6.2	6.1	6.1	-
Consumer price index	-	9.2	5.3	4.7	4.6	4.6	4.4	3.6	4.3	4.4	4.7	6.6	7.1	6.8	6.8	7.0
Index of industrial domestic sale prices	14.5	9.4	1.6	3.5	4.3	4.4	4.2	3.9	3.9	4.3	5.0	7.3	7.2	7.2	7.5	-
Index of industrial export sale prices	8.5	1.5	-4.5	-3.1	-2.7	-2.4	-2.4	-2.6	-2.0	-0.8	0.3	3.9	3.1	2.1	1.9	-
Agricultural production prices	22.5	4.9	-1.1	6.2	-0.5	0.3	-0.5	-1.0	-0.4	3.2	5.3	14.4	14.9	14.5	13.5	-
Competitiveness 10/																
based on manufacturing prices	-5.3	-9.0	-7.9	-6.2	-5.5	-5.2	-4.6	-4.3	-3.3	-2.0	-0.9	2.9	2.0	0.6	-	-
based on CPI	-1.6	-7.6	-9.1	-6.4	-5.4	-5.4	-5.0	-5.0	-3.9	-2.5	-1.3	2.5	1.1	-0.4	-	-
based on ULC (value added)	-2.8	-8.0	-9.1	-	.	-6.5	.	.	-4.5	-2.1	0.3	.	.	.	.	.

Table 2.

**ECONOMIC INDICATORS**  
Income and Monetary Aggregates

change from the same period of the previous year, %

		2000.	2001.	2002.	2003							2004					
		I-IV. quarter	I-IV. quarter	I-IV. quarter	1. month	1 - 2 month	I. quarter	1 - 4 month	1 - 5 month	I. half of year	I-III. quarter	I-IV. quarter	1. month	1 - 2 month	I. quarter	1 - 4 month	1 - 5 month
Average earnings:	gross	13.5	18.0	18.3	20.9	17.1	15.2	14.8	14.3	14.1	13.5	12.0	8.0	8.4	9.4	-	-
	net	11.4	16.2	19.6	23.4	20.7	19.1	18.8	18.3	18.1	17.0	14.3	6.9	7.2	8.0	-	-
Household	savings (HUF billion)	1049.9	1145.4	1196.8	-	-	193.2	-	-	653.2	707.9	1208.1	-	-	-	-	-
	credits (HUF billion)	245.4	391.8	769.9	-	-	196.2	-	-	508.8	838.5	1166.1	-	-	-	-	-
General government GFS balance (HUF million) 4/		-480.2	-444.0	-1685.6	-44.4	-207.4	-281.4	-399.9	-408.7	-601.1	-809.4	-1054.3	-218.6	-341.3	-434.7	-547.6	-722.4
Central budget	GFS balance (HUF billion) 4/	-368.7	-402.9	-1469.6	-12.9	-140.8	-224.0	-275.6	-252.9	-458.6	-588.6	-727.9	-173.9	-246.7	-364.9	-426.9	-508.8
	primary balance (HUF billion)	329.7	212.7	-832.0	23.3	-31.5	-70.3	-39.2	27.3	-89.5	-69.8	0.6	-141.5	-108.7	-186.3	-141.2	-169.0
	revenue change 4/	14.2	10.5	7.1	23.9	14.1	10.0	11.5	12.6	11.3	12.9	13.0	-11.7	5.5	8.1	7.3	5.8
	expenditure change 4/	13.7	10.4	30.4	10.5	11.3	11.6	12.0	9.5	13.7	13.4	-3.2	20.7	16.4	17.3	17.0	16.9
Social Security Funds 5/: balance		-81.4	-28.8	-100.9	-42.1	-87.7	-79.4	-147.7	-180.9	-169.4	-256.2	-345.2	-58.8	-115.3	-91.3	-146.5	-236.2
	revenue change	10.7	18.6	17.2	13.0	12.8	20.5	16.3	14.5	16.7	15.1	4.8	4.3	4.1	8.5	8.8	8.5
	expenditure change	12.5	14.9	20.4	23.6	21.9	21.0	22.7	17.0	16.5	13.0	14.4	10.1	9.0	9.2	7.2	11.9
Government paper benchmark yields (average annual) 6/																	
	3 month	11.80	9.80	8.24	6.75	5.48	6.27	6.38	6.37	7.63	9.41	12.16	12.21	12.58	12.10	11.58	11.35
	12 month	11.57	9.21	7.95	6.51	6.20	6.58	6.46	6.31	8.12	8.87	12.03	11.85	12.49	11.20	10.68	10.67
	3 year-bonds	10.74	8.17	7.37	6.88	6.84	6.64	6.50	6.29	7.86	7.97	10.16	10.29	11.16	10.36	9.71	10.12
	5 year-bonds	9.11	7.72	7.00	6.74	6.54	6.74	6.36	5.98	6.51	7.87	9.27	9.23	9.91	9.34	9.14	9.46
	10 year-bonds	9.04	7.06	6.44	6.51	6.42	6.50	6.31	5.95	6.08	7.22	8.02	8.13	8.75	8.22	8.19	8.44
	15 year-bonds		6.68	-	6.34	-	6.34	6.23	-	6.51	-	-	-	8.21	-	7.44	8.04
Interest rates 6, 7/:				-	-	-	-	-	-	-	-	-	-	-	-	-	-
with maturity less than a year	credit	12.8	11.2	9.7	8.3	7.0	8.2	8.23	7.96	8.7	10.5	13.4	13.5	13.6	13.5	-	-
	deposit	9.5	8.4	7.4	5.5	3.9	5.1	5.42	5.43	6.6	8.4	11.0	11.1	11.1	11.2	-	-
with maturity more than a year	credit	13.4	11.2	9.7	9.5	9.7	9.4	8.06	7.80	9.5	10.4	13.0	13.8	13.9	13.5	-	-
	deposit	9.4	7.7	8.0	5.1	4.7	5.1	5.36	5.29	6.8	8.6	10.8	11.1	8.5	10.9	-	-
Increase of money supply 8/		12.9	17.2	18.9	10.9	13.0	12.9	12.1	13.5	20.6	19.3	10.1	15.7	8.4	5.5	13.4	-
Current account of balance of payments (mEUR) old methodology		-4380	-3613	-4900	-444	-1112	-1488	-2264	-2707	-3285	-4703	-6488	-445*	-1167*	-1756*	-2826*	-
	Without reinvested earnings	-3309	-2085	-3018	-245	-719	-964	-1722	-2653	-2977	-3599	-4520	-254*	-783*	-1245*	-2323*	-
Net foreign debt denominated in foreing currencies (bEUR) old meth.9/		7.4	4.5	5.6	-	-	6.0	-	-	6.5	7.2	8.2	-	-	-	-	-
BUX index 3/		7865	7122	7739	7486	7212	7423	8116	8337	7782	8930	9627	10064	10242	10992	11072	11285

## METHODOLOGICAL REMARKS

for Table 1 and 2

Signs: \* Preliminary data; . : data is not available yet; - : no data for the period

- 1/ Including industrial customs free zones. The Statistical Office price indexes are published quarterly; the volumes for other periods are calculated with estimated price indexes.
- 2/ Data for firms with more than 5 employees and for budgetary institutions total.
- 3/ End of period data.
- 4/ Excluding privatization receipts. At the general government the interim data do not include the local governments.
- 5/ Total revenues and expenditures of the Pension Fund and Health Fund are not consolidated with the non-self-provided services.
- 6/ The yield or interest in the last month of the period.
- 7/ At deposits with maturity longer than a month but not longer than a year.
- 8/ M3 does not include deposits with an agreed maturity over 2 years and debt securities with over 2 years' agreed maturity issued by monetary financial institutions. However, it includes holdings by residents other than monetary financial institutions of MNB bonds with up to 2 years' agreed maturity plus holdings by residents other than monetary financial institutions of investment units issued by money market funds.
- 9/ Excluding intercompany loans
- 10/ Price based indicators seasonally non-adjusted, unit labour cost based indicators seasonally adjusted
- 11/ As a consequence of correction of short term credits the net foreign debt has changed.
- 12/ There is a change in the statistical methodology from December 2002, therefore the CSO corrected only the annual volume indices.  
According to the CSO publication exports went up by 5,9 % while imports increased by 5,1 % in 2002.
- 13/ Without part-time employees
- 14/ Including sales of motor vehicles and automotive fuel



## Main Indicators of the Hungarian Economy

2001 - 2004

	2001	2002	2003	2004
	fact	fact	prel.fact	expected
	<i>volume change over the previous year, %</i>			
<b>Gross Domestic Product</b>	3.8	3.5	2.9	cca. 3,5
Domestic use of G D P	1.9	5.4	5.5	cca. 3
of which:household consumption	5.9	9.3	6.5	cca. 2
gross fixed capital formation	5.0	8.0	3.0	7 - 9
Foreign trade turnover (goods and services)				
Export volume change	7.8	3.7	7.2	10 - 12
Import volume change	5.1	6.2	10.3	9 - 11
	<i>change in percentage of previous year</i>			
Gross average wages	18.0	18.3	12.0	7 - 9
Net average wages	16.2	19.6	14.3	6 - 8
Real wages, per employees	6.4	13.6	9.2	0 - 1
Consumer price index (annual average)	9.2	5.3	4.7	cca. 6,5
	<i>at current prices</i>			
Deficit of foreign trade balance, Euro billion	3.6	3.4	4.2	4,1 - 4,4
Current account deficit, Euro billion	3.6	4.9	6.5	6,5 - 6,8
	<i>in percentage of GDP</i>			
<b>Indicators in percentage of GDP:</b>				
ESA95 general government deficit	4.4	9.3	5.9	cca. 4,6
Current account deficit	6.2	7.1	8.9	cca. 8,5